ECONOMIC, FINANCIAL AND TRANSIT
DEPARTMENT

# RAW-MATERIAL PROBLEMS AND POLICIES

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PART I

PROBLEMS, PROPOSALS AND POLICIES

PART II

LESSONS FROM THE PAST

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*PART II: LESSONS FROM THE PAST*

# PREFACE

In the execution of any considerable plan of research it often happens that one part or another of the original programme meets with unforeseen causes of delay which prevent its completion by the date originally intended. *Raw-Material Problems and Policies* was planned as one item in the series of publications on post-war economic questions, a list of which will be found on pp. 111-13. It is based on a manuscript prepared by Professor Eugene Staley as long ago as 1942. But owing to a combination of circumstances that could not have been foreseen at that time and for which Professor Staley was himself in no way responsible, publication had to be delayed, and later it was felt advisable, in order to give the volume its proper setting in the whole series, somewhat to modify its form and orientation. This work of adaptation was on Professor Staley's suggestion entrusted to Dr. K. E. Knorr of the Institute of International Studies, Yale University, who is thus responsible for the text now issued and who indeed drafted the whole of Part II.

The purpose of this volume is pragmatic. In Part I are surveyed the various proposals that were put forward by international bodies and conferences in the inter-war period to which this study is confined with a view to finding a solution of the various raw materials problems that presented themselves. This historical survey is intended to lead up to Part II. In this second part the nature of the problems is examined, the extent to which the proposed solutions were appropriate or effective is considered, and in the light of this analysis suggestions are made concerning the manner in which similar problems might be handled in the future with the greatest chances of success.

In the final chapter Dr. Knorr brings together his broad constructive conclusions. But he does not attempt to recapitulate all the proposals of a constructive nature contained in the earlier chapters of Part II. Through the whole of this part analysis and conclusion go hand in hand.

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*Financial and Transit Department*

League of Nations
February 1946

# Part I

# Problems, Proposals and Policies

## CHAPTER I

## TRANSITION PROBLEMS: PROPOSALS AND INTERNATIONAL ACTION

### *1. The Economic Situation*

When the military phase of World War I came to a close in November 1918, statesmen were confronted with two sorts of international raw materials problems. One, demanding immediate attention, was directly connected with relief and reconstruction and the general transition from war to peace economy. The other encompassed long-range problems for which it seemed desirable to provide some solution in the peace treaties or in the Covenant of the projected League of Nations. The present chapter is concerned with those raw materials problems that were in substance transitional. The following chapters will deal chiefly with the more fundamental questions which, in changing forms and contexts, remained among the central issues of economic policy throughout the inter-war period.

The immediate raw materials problems at the time of the Armistice resulted from local and general shortages that were particularly acute in continental Europe. Stocks of foodstuffs, industrial raw materials and semi-manufactured goods were exceedingly low or depleted. Famine conditions existed in large parts of the continent, especially in Central and Eastern countries. Production had been disorganized and sharply curtailed. Where they had not been actually destroyed, factories and plant adapted to peace-time needs had deteriorated through prolonged

wear and tear. There was a severe scarcity of all kinds of shipping. Roads, railroads and bridges were out of repair and, particularly in Central and Eastern Europe, a high proportion of the available rolling stock was unfit for service. All these factors were interdependent and their ill effects cumulative. Malnutrition reduced the productivity of miners and other essential workers; lack of coal hampered transportation as well as production; and the lack of transport aggravated local scarcities of fuel, raw materials and food.

How were these countries to obtain minimum supplies of fuel and other raw materials as well as capital goods required for the resumption of large-scale industrial activity? Many had little or nothing to export at the time, their gold and foreign assets were seriously depleted, and their monetary systems often unstable if not chaotic. In a scramble for the limited merchant tonnage and commodity supplies, for which a pent-up demand in other parts of the world was increasingly asserting itself, these countries stood at an obvious disadvantage. Generally speaking, international purchasing power tended to be scarcest where the urgency of need was most intense. Every rise in the price of the goods and services required only increased their difficulties. Thus, some countries were unable to cover even their most immediate food requirements.

*2. National Policies and International Measures.*

Naturally enough, in such circumstances, the continental European governments tended to favour a continuation of the war-time system of allocating supplies and shipping according to need until they were able to stand on their own feet. In addition, the Allied countries, particularly those that had been devastated during the war, demanded some form of priority over Germany and her war partners in the allocation of goods and services.

However, the predominant attitude in the United States and the United Kingdom was inimical to such proposals. To be sure, in 1918 there were supporters of continued international allocation in both countries. In Great Britain, the *Committee on Commercial and Industrial Policy after the War* suggested the formation of an Allied organization on the lines of the *Commission Internationale de Ravitaillement* for the express purpose of allocating goods needed for reconstruction. Two reports of the Ministry of Reconstruction likewise favoured an international rationing system affecting scarce commodities and shipping space [1].

In the United States, Dr. F. W. Taussig, then chairman of the U. S.

[1] Great Britain, Ministry of Reconstruction, *The Aims of Reconstruction* (1918), p. 7; *Raw Materials and Employment* (1918), pp. 17-18.

Tariff Commission, wrote a "Memorandum on the International Allotment of Important Commodities" which he sent to President Wilson in October 1918. Dr. Taussig pointed to the unprecedented disturbance of trade conditions and the keen competition for scarce commodities to be expected in the post-Armistice period. He insisted that "there will be speculative advances in many commodities, speculative reactions, unsettled and feverish conditions". This diagnosis convinced him that the sound policy to follow was "that of a regulated distribution, or allotment . . . by international agreement". He therefore suggested the establishment of a central Board of Control and Allotment (composed of representatives of Allies, neutrals and enemies) under whose supervision technical commodity committees would ration supplies "on terms fair for all the world, allies, neutrals, and enemies" [1]. The organization was to be abandoned upon the restoration of normal market conditions.

Yet the prevalent sentiment in the United States was in opposition to continued controls. In his capacity as U. S. Food Administrator, Mr. Herbert Hoover wrote to the President "arguing strongly against the proposal which had come from certain quarters for international control of world distribution after the war" [2]. This attitude carried the day. Late in October 1918, discussions were held in London by representatives of the various economic agencies of the Allied governments on the formation of an inter-allied organization for the control of food, credit, and raw materials during the reconstruction period. On October 30th, 1918, the London representative of the U. S. Food Administration cabled to Mr. Hoover that the permanent representatives of the Allied Maritime Transport Council and the Food Council unanimously agreed that supply arrangements after an armistice should be arranged "through the existing Allied organization of the Food Council and programme committees . . .". The message continued: "It would be in their view disastrous if either neutral or enemy countries were able to go into the markets and purchase supplies required for the vital needs of the Allies in competition, but without cooperation, with the Allies, the result of such action being necessarily the entire dislocation of the general economic position now prevailing with disastrous results to the civilian population of both Allied and neutral countries" [3].

Mr. Hoover's reply, sent with the express approval of the Department of State, read in part as follows:

[1] The entire Memorandum is published in *The American Economic Review*, Vol. XXXIII (1943), pp. 877-81.

[2] R. S. Baker, *Woodrow Wilson, Life and Letters* (New York, 1939), Vol. 8, p. 150.

[3] *Papers relating to the Foreign Relations of the United States*, 1918, Suppl. 1, Vol. I, pp. 616ff. (Hereafter this publication will be referred to as F.R.U.S.).

> "This Government will not agree to any programme that even looks like inter-Allied control of our economic resources after peace. After peace over one-half of the whole export of food supplies of the world will come from the United States and for the buyers of these supplies to sit in majority in dictation to us as to prices and distribution is wholly inconceivable. The same applies to raw materials. Our only hope of securing justice in distribution, proper appreciation abroad of the effort we make to assist foreign nations, and proper return for the service that we will perform will revolve around complete independence of commitment to joint action on our part"[1].

For the handling of European relief also, Mr. Hoover rejected the idea of an inter-Allied relief office and expressed himself as being strongly in favour of a relief commission patterned after the Belgian Relief Organization. Such a European Relief Commission would "above all" prevent "the extension of the functions and life of Inter-Allied Food and Maritime Councils either now or after peace"[2]. These views were shared by other high United States officials.

In his address to Congress, on December 2nd, 1918, President Wilson vividly described the revolt against war-time economic regulations which swept the United States after the Armistice:

> ". . . the moment we knew the Armistice to have been signed we took the harness off. Raw materials upon which the Government had kept its hand for fear there should not be enough for the industries that supplied the armies have been released and put into the general market again. Great industrial plants whose whole industrial output and machinery had been taken over for the uses of the Government have been set free to return to the uses to which they were put before the war . . ."[3]

It was particularly American business men who pressed vigorously for immediate de-control.

Opinion in Britain developed in the same direction as in the United States. While labour representatives tended to favour the retention of controls in order to prevent a steep rise in the cost of living, the great majority of manufacturers and merchants insisted on the re-establishment of full liberty of private dealings and their view was shared by the Government[4]. Even on the continent of Europe "extravagant hopes

[1] *Ibid.*
[2] *Ibid.*
[3] Albert Shaw, ed., *The Messages and Papers of Woodrow Wilson* (New York 1929), Vol. I, p. 565.
[4] *Cf.* Great Britain, Ministry of Munitions, *Raw Materials, Trading Accounts*, Cmd. 788 (1920), Report on the Wool Trade, by the Director-General of Raw Materials, p. 13.

were maintained by the majority of the people that the period of stringency would almost immediately come to an end, and there started very quickly an agitation in favour of the removal of those controls within the Allied countries on which the Inter-Allied organization had been built up"[1].

This popular and, in the case of the United States, official opposition led to the abandonment of proposals for continued inter-allied control made in October and November 1918 by various representatives of the British, French and Italian Governments. In December, the French Government conceded that it was desirable to remove war-time controls as soon as possible, but urged at the same time that control over essential foodstuffs and raw materials should be maintained during the transition period. The British Government agreed to this policy on condition of its acceptance by the United States. This acceptance was not forthcoming. The United States Government reiterated its view that the war-time inter-allied agencies should be disbanded. It now took the position, however, that new organizations should be created to deal with the special problems of the Armistice period. Largely at the insistence of the United States, a loose co-ordinating body—the Inter-Allied Supreme Council for Supply and Relief—was established in January 1919, Mr. Hoover becoming Director-General of Relief[2].

However, the controversy over the continuation of inter-allied control machinery, set up during the war, was not the only dividing issue affecting relief and reconstruction projects. The lifting of the blockade on neutral and liberated as well as enemy countries, the scale of reparations to be exacted from Germany, the high prices of commodities exported by the United States, and the availability of credit from the United States were among the questions that disturbed inter-allied relations. On the whole, the position of the United States regarding these problems was opposed to that of the European allies. The American programme has been summarized by Mr. Hoover as follows:

> The American point of view was that the solution of the major economic problems required some very direct and positive steps: First, that the blockade should be removed; second, that each nation should contribute its share of shipping to be devoted to the movement of primary commodities . . .; third, that some 2,000,000 tons of enemy shipping in enemy and neutral ports should at once be placed in service of supplies and repatriation of troops; fourth, that the stream of American food-supplies should be absorbed by the Allies, pending their diversion into

[1] H. W. V. Temperley (ed.), *A History of the Peace Conference of Paris* (London, 1920), Vol. I, p. 290.
[2] *Ibid.*, pp. 294-96.

> the enemy area; fifth, that assistance should be given in the erection of the necessary economic functions of new governments, that they might restore transportation, suppress hoarding, secure the distribution of imported supplies within their own frontiers; sixth, that ports be opened, transportation across liberated and enemy states be recreated by both rail and canal, that the interchange of vital commodities . . . should be resumed, that seeds and animals be distributed; seventh, that the production of coal should be revived and its distribution equitably arrived at, even though it brought hardship upon the nations possessing the coal-mines; eighth, that minimum credits should be extended to the liberated nations upon which they could cover their immediate necessities; ninth, that enemy people should pay for their supplies in cash; tenth, that provision for the unemployed, pending resumption of production, should be established, in order that suffering and social disorder might be mitigated; eleventh, that special charitable relief to the masses of orphan waif children, and measures in combat of contagious disease sweeping Europe should be at once organized; twelfth, that every possible step should be taken to demobilize governmental control of industry, not alone to revive individual initiative, but to demobilize hatred through replacement of governmental economic contact by the softening processes of individual business [1].

Several points on this programme were scarcely acceptable to the European Allies. Still fearing a resurgence of the German will to resist, the premature relaxation of the blockade appeared foolishly dangerous particularly to the French. The suggestion that the Allies absorb the "stream of American food-supplies" ultimately destined to enemy areas was felt by several delegations to put too great a burden on their countries. If the enemy were made to pay cash for relief supplies, this would deplete the resources available for reparation payments and it was suggested, therefore, that the United States furnish such relief supplies on credit. The proposed scheme to ensure equitable distribution of coal appeared to imply that the United Kingdom was being asked to accept that kind of outside control which the United States refused to accept for itself.

The United States also stressed the necessity of restoring inter-European trade if shortages were to be eased. In parts of the continent, foreign trade was still almost at a standstill in the spring of 1919. In the absence of adequate international action, many countries enforced national measures designed to keep not only raw materials, fuel and foodstuffs but also locomotives and rolling stock within their boundaries.

[1] Herbert Hoover, "The Economic Administration during the Armistice", in E. M. House and Charles Seymour, *What Really Happened at Paris* (New York, 1921), pp. 342-43.

"The Allied Governments", wrote Mr. Baruch in April 1919, "have it in their power to correct this (difficult economic) situation by removing restrictions that are hampering trade, but all have refused to do it"[1].

In the British view, on the other hand, lack of credit was the chief obstacle to Europe's economic rehabilitation. It was in connection with this problem that Mr. Lloyd George submitted to President Wilson in April 1919 a proposal which had been prepared in the British Treasury by Mr. J. M. Keynes (now Lord Keynes). The covering letter pointed out that the measures taken up to that time had been directed primarily to the relief of immediate distress and that such measures were inadequate to the solution of the whole economic problem and did not touch the problem of supplying raw materials to any of the countries concerned. Furthermore, no assistance had yet been granted to the enemy countries. While "in the long run we must mainly look for our salvation to the renewed life of private enterprise and private initiative", help from this quarter would not be sufficient in the financial sphere where "the problem of restoring Europe is almost certainly too great for private enterprise alone", since the risks were too large, the amounts too big, and the credit required too long. To meet this situation, a scheme was proposed which amounted to the commercialization of reparations. Bonds were to be issued by the enemy states to an amount of £1,345 millions, interest on which was to be guaranteed first, jointly by the enemy states, and secondly, by the Allied and Associated Governments and European neutrals. The bonds were to be turned over to the Allied and Associated Governments and the European neutrals in part payment of reparations and existing debts, except that one-fifth of the total issue was to be retained by the enemy states for the purchase of food and raw materials.

The reaction of President Wilson to this proposal was that it asked the United States to provide Germany with new working capital in order to replace that which Germany would be forced to turn over to the Allies as reparation payments. Furthermore, he did not believe that he would be able "to secure from the Congress of the United States authority to place a federal guarantee upon bonds of European origin" and it was his own opinion that "whatever aid the Congress may see fit to authorize should . . . be rendered along independent lines". He repeated the American view that as much credit as possible should come from private sources and that the governments should get out of "the banking business"[2].

[1] R. S. Baker, *Woodrow Wilson and World Settlement* (Garden City, N. Y., 1922), Vol. III, Document 47, pp. 331-5.

[2] Baker, *Woodrow Wilson and World Settlement,* Vol. III, Document 49, p. 344.

Recommendations drawn up in May 1919 by Mr. Bernard M. Baruch, and an analysis of the European economic situation presented to the President later in the month by Mr. Norman H. Davis and Mr. Thomas W. Lamont, agreed that some government financial aid might be necessary for a limited term. Credits were especially needed by the small nations, the European Allies and the ex-enemy states for the purchase of raw materials, railway and agricultural equipment and for other working capital. International action, however, was still frowned upon. It was proposed that such aid should be given independently by Great Britain, France, and the United States, duplication of effort to be avoided by consultation. The United States, according to these proposals, should make its aid conditional upon the cancellation of preferential treaties and trade agreements [1].

On June 4, 1919, a committee of economists which had been appointed "by the Four Heads of States to report on Europe's requirements for food and raw materials and the means of financing such supplies" also called attention to the fact that immediate financial assistance was necessary if the European countries were to obtain the raw materials and other supplies needed to restart production. The report revealed how little had so far been accomplished; but despite its emphasis on the urgency of the problems, it "was never seriously considered by the Four" [2].

Whatever international action was attempted and carried through in the pursuit of Europe's relief and economic rehabilitation must be appraised against the background of conflicting governmental attitudes. On two principles the American view prevailed: (1) wartime inter-allied organizations were to be liquidated as rapidly as possible and, where absolutely necessary, new agencies created to deal with the problems of the Armistice period; (2) the powers of such new bodies were to be strictly circumscribed so as not to interfere materially with national sovereignty.

### 3. *The Inter-Allied Supreme Council for Supply and Relief.*

The Inter-Allied Supreme Council for Supply and Relief was established "to investigate and consider the requirements for relief in Europe and their relation to the general supply of allied and neutral countries, and to determine the general policy of European supply and the measures which shall be taken for its execution" [3].

During its brief life, this Council devoted practically all its attention

[1] *Ibid.*, Documents 50 and 51.
[2] Baker, *Woodrow Wilson and World Settlement*, Vol. III, Document 52, p. 363.
[3] Quoted in Temperley, *op. cit.*, Vol. I, p. 295.

to the investigation of urgent relief problems in Eastern Europe. In the field of raw materials problems arising for the need of economic reconstruction it proved a failure. The Council had no organic connection with the existing allied organizations dealing with food, shipping, blockade, and so forth. It lacked "the necessary authority and machinery for giving effect to its recommendations" [1]. On February 8, 1919, about a month after its establishment, it was absorbed by the Supreme Economic Council which was created, on a motion of President Wilson, by the Supreme Council of the Allies.

*4. The Supreme Economic Council.*

The functions of the Supreme Economic Council, as defined by resolution of the Supreme Council, were:

> To examine such economic measures as shall be taken during the period of reconstruction after the War so as to ensure (a) a due supply of materials and other commodities necessary for the restoration of devastated areas; (b) the economic restoration of the countries which have suffered most from the War; (c) the supply of neutral and ex-enemy countries without detriment to the supply of the needs of the Allied and Associated countries [2].

Its duties were limited to the reconstruction problems of the Armistice period. The new Council was not consulted on the economic clauses of the peace treaties.

To accomplish its tasks, the Supreme Economic Council was authorized to co-ordinate the work of such existing organizations as the Inter-Allied Maritime Transport Council, the Food Council, the Supreme Blockade Council and the Supreme Council of Supply and Relief. These agencies were resolved into separate sections of the new Council whose headquarters were in Paris. The Food and Relief Section was headed by Mr. Hoover, the Raw Materials Section by M. Loucheur of France. Other sections dealt with Finance, Blockade, Communications, and Shipping.

Yet this apparently sweeping centralization was delusive. In reality, the powers of the new Council were severely limited. It possessed no funds of its own and was given no executive powers other than those of the absorbed agencies. Its possible effectiveness, moreover, was "enormously reduced by the concomitant disintegration of the controls, both national and international, which proceeded rapidly during the first

[1] *Ibid.*, p. 296.
[2] Quoted in Temperley, *op. cit.*, Vol. I, p. 297.

half of 1919". For example, "the relaxation of tonnage control prevented the successful adoption of any definite policy in regard to the allocation of the supplies for European countries"[1].

At first, the Council concerned itself primarily with the distribution of food—under Mr. Hoover's direction—to the famine-stricken countries of central and eastern Europe as well as, in accordance with the Armistice terms, to Germany. In order to render these relief measures practicable, funds were also made available for the repair of railroads and other means of communication. The Council did not turn its attention to the problem of providing and distributing essential supplies of coal and raw materials until after the peace treaty with Germany had been concluded in July 1919[2].

The end of the Armistice ended the mandate of the Council. Several of its sections actually wound up their affairs and the United States members were gradually withdrawn. The Supreme Council of the Allies realized, however, that the problems of reconstruction did not disappear with the signing of the peace treaties. Yet efforts to form a new organization came to naught. Finally, the Supreme Council resolved "that the problems arising out of the present difficulties of providing food, coal, and raw materials to Allied Powers should be submitted to the Supreme Economic Council for examination and report"[3].

A Consultative Food Committee was set up at the Brussels meeting of the Supreme Economic Council on September 20, 1919. Establishing sub-sections dealing with wheat and flour, meat, hog products, butter and cheese, and sugar, the Committee engaged successfully in co-ordinated purchasing and, when this was impossible, in exchanging information on supply conditions and purchasing plans. These sub-sections continued to function until the fall of 1920. A European Coal Commission was formed in August 1919 to co-ordinate coal production and distribution throughout Europe. Lacking "the authority necessary for putting its recommendations into effect"[4], this Commission devoted itself chiefly to the pressing problem of supplying Austria with coal, until this function was assumed by an organ of the Reparation Commission.

On August 1, 1919, the Supreme Economic Council established also a Raw Materials Committee. The functions of this body were of a purely fact-finding nature. It was especially requested to increase and assemble information available on the supply of raw materials to European countries themselves. Eventually this agency was merged

[1] *Ibid.*, p. 299.
[2] *Ibid.*, pp. 296-97.
[3] *Ibid.*, p. 328.
[4] *Ibid.*, p. 330.

with an International Statistical Committee into a single Committee on Raw Materials and Statistical Information. This body began the publication of an international statistical bulletin which was later taken over and expanded by the League of Nations Secretariat[1].

*5. Provisions in the Peace Treaties.*

Contributions to the solution of certain transitional problems were also provided for in the peace treaties. Germany was required to deliver specified quantities of coal and coal derivatives to France, Belgium and Italy for a period of ten years. An option was accorded to the Reparation Commission to require the delivery by Germany also of dyestuffs and other chemicals as well as a number of raw materials and other semi-manufactures, to such of the Allied and Associated Powers as demanded them. Bulgaria undertook to furnish specified quantities of coal to Yugoslavia for five years. All the defeated Powers were placed under an obligation to restore or replace, so far as the Reparation Commission saw fit to demand, animals, machinery, equipment, etc., destroyed or seized by them during the war and, again subject to the Commission's decision, to furnish "reconstruction materials" for the purpose of repairing the devastation they had caused.

Other clauses of the Treaties sought to counteract some of the serious economic consequences of the territorial changes effected. Thus, Poland was obliged to permit for 15 years the free export to Germany of the products of the Upper Silesian mines, while Germany undertook to continue for ten years the supply of electric current to Alsace-Lorraine.

The dismemberment of the Austro-Hungarian Empire entailed particularly disastrous conditions in some of the successor states. Austria was on the verge of starvation and both Austria and Hungary were in urgent need of coal and other raw materials. With a view to providing a comprehensive and enduring solution to these problems, the authors of the Peace Treaties encouraged the partial restoration of the economic unit of the former Hapsburg Empire. Thus, the Treaties of St. Germain and Trianon permitted the formation of a preferential customs regime between Austria, Hungary and Czechoslovakia. The Treaty of Trianon further provided that "in order to permit mutual assistance between Poland, Roumania, the Serb-Croat-Slovene State, Czechoslovakia, Hungary and Austria in regard to products hitherto exchanged between the territories of these States which are indispensable to their industry or trade, negotiations shall be undertaken, on the

[1] The *Monthly Bulletin of Statistics,* published by the League of Nations since June 1920.

initiative of any one of these States, within six months of the coming into force of the present Treaty, with a view to the conclusion . . . of separate conventions".

It was also provided that Czechoslovakia and Poland, on the one hand, and Austria and Hungary, on the other, should arrange for the reciprocal supply of coal and raw materials, with a similar agreement to be concluded between Hungary and Austria for the exchange of foodstuffs and raw materials. Pending the conclusion of these various agreements, but for limited periods only, exports of Czechoslovak and Polish coal to Austria and Hungary and food exports from Hungary to Austria were to be free from duties and restrictions "up to a reasonable quantity", to be fixed, failing agreement, by the Reparation Commission.

For various reasons discussed in another League of Nations study[1], the special Danubian customs régime never materialized. Commercial friction rather than the hoped-for co-operation characterized the relations between some of the Succession States. Certain minor barter arrangements were made for the supply of food from Hungary to Austria and of coal to both those countries from Czechoslovakia and Poland. More comprehensive arrangements encountered political obstacles as well as such economic difficulties as Austria's inability to furnish any substantial *quid pro quo*. The Treaty clauses in question were largely ineffective.

Indeed, it must be concluded that, on the whole, very little was done in the immediate transition from war to peace to facilitate by international action the distribution of scarce raw materials supplies according to the urgent needs of Europe's economic rehabilitation.

[1] *Commercial Policy in the Interwar Period: International Proposals and National Policies*, Geneva, 1942, pp. 115-117, 125-6

## CHAPTER II

## LONG-RANGE PROBLEMS: PEACE CONFERENCE OBJECTIVES AND TREATY PROVISIONS

### 1. *International Trade Problems and the Peace Treaties.*

Side by side with concern over the special raw materials problems of the immediate postwar period, statesmen in 1919 also considered raw materials problems of a more fundamental and less transitory character. It was widely held at the time that the "struggle for raw materials" underlay the commercial and territorial rivalries which were among the decisive causes of war. Although they had been the exception rather than the rule as compared with the 1920's and 1930's, discriminatory customs tariffs and export duties, together with systems of colonial preference, were considered the principal weapons of this commercial warfare and great stress was laid, particularly in the United States, on the necessity for their elimination. Indeed, President Wilson announced that "the passing away of discriminatory tariffs was to be like the reduction of national armaments" [1]. This proposal was linked in the President's mind with the idea that any such "economic weapons"—including refusal of access to strategic raw materials—should be entrusted to the League of Nations for the purpose of restraining aggression.

It was however realized in many quarters that absence of discrimination and the "open door" in colonial areas were in themselves no guarantee of access to raw materials. It was necessary that all countries should be enabled to exchange their products for the raw materials they required—in other words, that the channels of international trade should be reopened, "artificial" or "excessive" trade barriers broken down and "normal" credit relations restored.

These various lines of thought were expressed in the third of the Fourteen Points, which contemplated:

> "The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance".

[1] A. Young, "Commercial Policy in German, Austrian, Hungarian, and Bulgarian Treaties", in Temperley, *A History of the Peace Conference of Paris*, Vol. V, p. 62.

This statement might have seemed to imply a substantial all-round duction of tariffs. President Wilson, however, interpreted the declaraion differently. Replying to a charge that it advocated "free trade", he President explained:

> I of course meant to suggest no restriction upon the free determination by any nation of its own economic policy, but only that, whatever tariff any nation might deem necessary for its own economic service, be that tariff high or low, it should apply equally to all foreign nations: in other words, that there should be no discrimination against some nations that did not apply to others. . . . Weapons of economic discipline and punishment should be left to the joint action of all nations for the purpose of punishing those who will not submit to a general program of justice and equality [1].

In an analysis of the Fourteen Points which received President Wilson's approval, the interpretation of Point Three concluded with the statement that "this clause naturally contemplates fair and equitable understanding as to the distribution of raw materials" [2].

However, the first part of the clause was never considered at the Peace Conference. A strong movement for high tariff protection prevailed in the United States and few European countries were disposed to limit their freedom of action in customs matters. This was particularly true of some of the new States which the Conference recognized but was unable, or disinclined, to restrain in the policies of the extreme economic nationalism which they immediately proceeded to adopt.

The French delegation, supported by the Italian, did propose, however, a general economic agreement which provided, among other things, that import as well as export barriers affecting industrial raw materials should be removed:

> In order to put an end, as far as possible, to economic rivalries among the nations in the search for raw materials, suppress the numerous causes of economic rivalry which endanger the peace of the world, and neutralize the natural economic inequalities resulting from the geographic distribution of wealth throughout the world, the Allied and Associated Countries agree that henceforward the raw materials of industry shall be free of both import and export duties [3].

This sweeping proposal evoked no positive response among the other delegations and, therefore, was not pressed by its sponsors. Removal of

[1] *Woodrow Wilson, Life and Letters*, Vol 8, pp. 524ff.
[2] *F.R.U.S.* (1918), Suppl. 1, Vol. I, p 406.
[3] Baker, *Woodrow Wilson and World Settlement*, Vol III, Document 60, p. 414. Germany, however, was not to be entitled to equal treatment under the proposed arrangement

discrimination rather than elimination of trade obstacles became the immediate subject of debate. Hence, emphasis was placed almost exclusively on the second part of President Wilson's Third Point which referred to "equality of trade conditions". Members of the United States delegation prepared a "declaration for equality of trade conditions" which was attached to the President's second draft for a Covenant for the League of Nations. It provided that trade regulations must be "equal and without discrimination, difference, or preference, direct or indirect" [1]. Yet, as exceptions to this general principle the declaration approved of all existing arrangements, British Empire preference, and the formation of a European and an American customs union. A draft on equality of trade conditions submitted by the British delegation did not differ in essentials from the United States proposals.

It was soon clear, however, that not even an agreement on trade equality was feasible at the time. This was partly because of division of attention among many pressing matters; the chief reasons, however, were "political obstacles". The United States delegates "were afraid of actual conventions that might restrict the economic freedom of the United States" [2] and a similar mood of economic nationalism, combined with a fear of domestic political reactions, seemed to permeate most other delegations at the Conference. Furthermore, the French pushed hard at every opportunity to impose economic discriminations against Germany. The upshot was a treaty of peace in which Germany was obliged to accord unconditional most-favoured-nation treatment to Allied and Associated countries for five years, while the Allies did not assume reciprocal obligations. Austria, Hungary and Bulgaria were required to undertake the same unilateral obligation for three years.

### 2. *International Trade Problems and the League Covenant.*

President Wilson's third draft of the Covenant of the League of Nations contained the principles of the original American and British draft declarations, modified to appear as follows:

> It is further convenanted and agreed by the signatory Powers that in their fiscal and economic regulations and policy no discrimination shall be made between one nation and another among those with which they have commercial and financial dealings [3].

A British draft presented on the same day proposed that the High Contracting Parties would "endeavour to secure and maintain freedom

[1] D. H. Miller, *The Drafting of the Covenant* (New York, 1928), Vol. II, Document 4, p. 17.
[2] Baker, *Woodrow Wilson and World Settlement,* Vol. II, p. 415.
[3] Miller, *op. cit.,* Vol. II, p. 105.

of transit and just treatment for the commerce of all States members of the League"[1]. It is evident that "just treatment" is a more elastic phrase than "no discrimination". But the clause finally adopted as Article 23e of the Covenant of the League of Nations was even weaker:

> Subject to and in accordance with the provisions of international agreements existing or hereafter to be agreed upon, the Members of the League . . .
>
> (e) will make provision to secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all Members of the League. In this connection the special necessities of the regions devastated during the war of 1914–1918 shall be borne in mind.

While affirming a vague principle, this provision imposed no specific obligations upon the Members of the League of Nations. President Wilson and other Allied statesmen thought it better to let the central issues of economic policy be worked out in the future through the League of Nations rather than to force a fight for them at the time. Article 23e of the Covenant did give the League of Nations authority to deal with economic questions, and the League was to provide many occasions in subsequent years when the nations of the world could have agreed to liberal economic policies had they been willing to do so. As a member of the United States delegation to the Peace Conference put it, "in the long run, the economic settlement will be just what the world makes of it"[2].

Proposals for equal treatment of the trade of all nations in the former Turkish and German possessions were realized to a limited extent in the mandate system set up under the League of Nations. This was largely on American insistence. In the "A" and "B" areas[3] "equal opportunities for the trade and commerce of other Members of the League" were guaranteed. In practice, all countries—and not merely the Members of the League—were to enjoy these equal opportunities.

In contrast to the proposals at the Peace Conference for meeting raw material problems through the creation of a free competitive market was the suggestion advanced in an Italian draft for the Covenant for the League of Nations. This proposal stated that "the international distribution of the foodstuffs and raw materials required to sustain

[1] *Ibid.*, p. 107.
[2] A. Young, *"The Economic Settlement"*, in House and Seymour, *What Really Happened at Paris*, p. 304.
[3] Iraq, Palestine, Trans-Jordan, Syria, Lebanon and the former German colonies in Central and East Africa.

healthy conditions of life and industry must be controlled in such a way as to secure to every country whatever is indispensable in this respect" [1]. Various commissions were to be established in order to carry these principles into effect. An Economic Commission should "procure and furnish data for the solution of international problems of an economic and financial character, in such a way as to facilitate the progressive and harmonious co-ordination of the interests of every country in this field". Though this proposal was never formally considered by the Peace Conference, it is of interest in the light of subsequent Italian suggestions [2].

Throughout the Armistice period, programmes more or less similar to these Italian proposals were recommended by various labour and consumer groups. The conference of the International Federation of Trade Unions held in Berne in February 1919 adopted a resolution proposed by the French delegation which demanded that among the economic tasks of the League of Nations should be "the international distribution of the necessary raw materials". The same resolution was adopted at a later conference of trade unions at Amsterdam. Likewise, a conference of Inter-Allied and Neutral Cooperative Societies in June 1919 urged the formation of international committees which "would be entrusted with the duty of distributing food supplies among the nations in accordance with the needs of each and in so far as the resources of the world permit" [3].

These radical proposals had no chance of being seriously entertained at a time when even general adherence to the principle of unqualified equality of treatment could not be obtained.

[1] Miller, *op. cit.*, Vol. II, p. 247.
[2] See pp. 28-31.
[3] International Labour Office, *Studies and Reports*, Series B, No. 2, p. 2.

## CHAPTER III

## THE YEARS OF RECONSTRUCTION, 1919–1925

### *1. The Economic Situation.*

The continued debate on international raw materials problems during the period of reconstruction must be viewed against the background of the unstable and disorganized conditions prevailing in Europe and in the world as a whole. In general, these underlying conditions were characterized by the profound dislocations caused by over four years of military, diplomatic and economic warfare and by the unco-ordinated attempts—in the absence of large-scale international action—of national economies to adjust themselves to these dislocations.

Three distinct phases of the raw materials problem can be distinguished in the immediate postwar years. The first, lasting through 1920 and the early part of 1921, was still dominated by the fact of general shortages, especially severe in continental Europe. The following table, reproduced from another study of the League of Nations [1], clearly reveals the under-supply of continental Europe with overseas supplies:

*Overseas Imports into Continental Europe*

Quantum indices: 1927 = 100

I. Foodstuffs (including live animals)
II. Raw Materials and Semi-Manufactured Products
III. Finished Goods

| | Total Continental Europe | | | | Western Allies | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | I | II | III | Total | I | II | III |
| 1913 ....... | 115 | 109 | 117 | 122 | 107 | 84 | 105 | 208 |
| 1919 ...... | 95 | 120 | 62 | 167 | 145 | 167 | 95 | 430 |
| 1920 ...... | 75 | 83 | 61 | 107 | 97 | 102 | 77 | 223 |
| | **Neutrals** | | | | **Other Countries** | | | |
| | Total | I | II | III | Total | I | II | III |
| 1913 ........ | 138 | 174 | 146 | 82 | 111 | 95 | 119 | 116 |
| 1919 . . | 112 | 104 | 109 | 125 | 35 | 78 | 7 | 52 |
| 1920 ....... | 95 | 80 | 105 | 101 | 40 | 65 | 25 | 45 |

[1] *Europe's Overseas Needs 1919–1920 and How They Were Met* ( Ser. L. o. N.P. 1943. II. A.6. Geneva, 1943), pp. 14 and 19.

While imports of foodstuffs were markedly below the prewar volume, imports of raw materials and semi-manufactures remained on a relatively still lower level. This striking under-supply, moreover, must be appraised in the light of a greatly reduced volume of intra-European trade, on the one hand, and abnormally large reconstruction needs on the other.

In part, scarce supplies of primary commodities were the consequence of export restrictions by which some countries tried to preserve short stocks and small output volumes for their domestic needs. But the main reason was the lack of foreign purchasing power experienced by many countries. Export industries were handicapped by lack of fuel, raw materials and, in many instances, adequate machinery and equipment. International lending was on a restricted level and consisted mainly of intergovernmental transactions. The United States and, to a lesser extent, the United Kingdom were the chief capital exporters. Their financial aid went mostly to former allies; credits to ex-enemy countries were not granted for raw materials purchases but limited to food and other relief supplies. The scramble for high-priced raw commodities led to a still further depreciation of the currencies of some countries which, in turn, only increased their difficulties in negotiating credits and discouraged exporters from selling all available supplies.

With the onset of the depression of 1921, the raw materials problem entered its second phase. The buying boom was suddenly interrupted and producers, who had been attempting to expand production as much as possible, had to compete in a falling market. This market became increasingly glutted as large stocks, previously held for speculative reasons, were released. Most restrictions and discriminations practised by exporting countries were promptly discarded and the raw materials problem as a producers' problem made its debut on the postwar scene. Even during this period, however, many countries with depreciating currencies and without foreign credits continued to experience difficulties in securing adequate supplies.

The depression was of brief duration. With the general business recovery, demand for and prices of primary products quickly improved. The economies of most European countries gradually adjusted themselves to new conditions, currencies were stabilized, export industries expanded their outputs, and the volume of long- and short-term international lending rose sharply. Concomitantly, the international raw materials problem, as a problem confronting consumers and importing countries, lost urgency during the remaining years of reconstruction. Despite the reconstruction boom, however, many primary

producers faced the results of structural maladjustments. The heavy wartime and postwar demand and correspondingly high prices had stimulated large increases in productive capacity. Crop acreages had been expanded, new mines opened, additional plant installed, and technological advances had often enhanced productivity. In some raw materials markets, therefore, prices tended to decline and, as a reaction, protective practices spread in countries that were importers on balance, while exporting countries began experimenting with export subsidies and restrictive controls.

The succession of the three phases described fashioned the general frame of reference within which the raw materials problem was explored and solutions proposed. During the first phase, the problem of consumers and importing countries, in general, and of war disorganized countries, in particular, occupied the foreground of the picture, and problems of an essentially transitional character often still dominated the discussion. This orientation gradually lost significance in the second phase. In the third, the raw materials problem as a fundamental problem of producers and exporting countries gained increasing currency although measures, designed to deal with that problem, were sometimes of a nature which, in turn, presented new problems to consumers and the importing countries.

*2. Proposals by International Associations.*

At the beginning of the period, when importing countries suffered from a crippling dearth of raw materials, labour organizations came forward with the most radical schemes. As during the Armistice period, they advocated direct allocation of raw materials in short supply by international action. Their special interest originated less in their representation of consumers' interests than in the phenomenon of widespread unemployment resulting from lack of raw materials in countries which, largely dependent upon imports, did not command adequate resources for the payment of such imports. At the first conference of the International Labour Organisation, held in Washington in November 1919, M. Baldesi, the Italian workers' delegate, proposed the establishment of a permanent commission under the League of Nations to assure a "just distribution (of raw materials) among the different countries in accordance with their present and future industrial needs"[1]. This resolution was rejected by 43 votes to 40, with the majority of employers' and government delegates voting in the negative.

The International Congress of Miners, meeting in August 1920, unan-

[1] League of Nations, *International Labour Conference, First Annual Meeting, 1919,* page 239.

imously adopted a resolution urging "that there should be instituted at an early date an international office for the distribution of fuel, ores, and other raw materials essential to the renewal of normal economic life of all nations" [1]. After considering the requests of the miners and other labour groups, the Governing Body of the International Labour Office decided to request the League of Nations to set up a permanent international statistical office on prices and supplies, to be attached to the Economic and Financial Section. The workers' representatives on the Governing Body, however, pointed out that this proposal did not fully meet their demands. They held that "the League of Nations" should be "an active international organism, the functions of which should not be confined merely to the regulation of the diplomatic relations between nations" [2]. However, a proposal to memorialize the League "in favour of the distribution of raw materials" was rejected by eleven votes to ten [3].

The discussion on raw materials problems at the Paris meeting of the International Chamber of Commerce in June 1920 revealed a sharp rift of opinion. The United States, British and some other delegates favoured return to normal laissez faire as the best solution. A group, led by spokesmen of French business, advocated the continuation of political intervention in economic affairs and the maintenance of strict Allied controls over Germany. Despite these differences, a resolution was agreed upon which called for: (1) measures to expand the production of raw materials; (2) establishment of a bureau charged with the assembly of up-to-date output data; (3) accordance of preferential treatment, during the reconstruction period, by Allied nations with surplus stocks of materials to Allies in need of supplies; (4) recognition of the danger of conflict arising from price discrimination and monopoly abuses in the field of raw materials [4].

### *3. The Brussels Financial Conference, 1920.*

At the International Financial Conference, convened by the League

[1] I.L.O., *Bulletin*, Nov. 1920, No. 9, p. 1.
[2] I.L.O., *Bulletin*, Nov. 1920, No. 9, p. 1.
[3] In November 1920, the London Congress of the International Federation of Trade Unions adopted a committee report which stated flatly "that the structure of capitalist society is an obstacle" to "the world". It proposed that the International Labour Office be approached "with the object of obtaining the creation of a permanent office including representatives of the organized workers for the assurance of a just distribution of raw materials among the various countries in accordance with their present and future needs". I.L.O., *Bulletin*, Dec. 8, 1920, No. 14, page 28.
[4] Karl W. Kapp, *Memorandum on the Efforts Made by the League of Nations Towards a Solution of the Problem of Raw Materials* (Geneva Research Memorandum No. 1, International Studies Conference, 1937; mimeographed), in Appendix 6.

of Nations at Brussels in September 1920, 49 countries were represented by delegates appointed by their governments but acting "as experts and not as spokesmen of official policy". Here, as at the International Labour Conference, the Italian delegates took the lead on the raw materials problem. Yet, not being representatives of organized labour, the solutions they proposed were entirely different from those of M. Baldesi referred to above. To ease the acquisition of raw materials by economically disorganized countries, they recommended extension of ample credit facilities to raw-material processors and "liberty of distribution of raw materials" rather than intervention of governmental authority. The Conference, indeed, unanimously adopted a resolution urging that "commerce should as soon as possible be freed from control and impediments to international trade removed" [1].

The general conference atmosphere in favour of free trade did not denote advocacy of the absolutely free trade preached by the Manchester School. Majority opinion aimed rather at the restoration of prewar commerce, which had been freer of barriers than trade in the immediate postwar period. Similarly, there was general emphasis on the desirability of facilitating private credits rather than encouraging government loans and, regarding raw materials shortages, the prompt removal of restrictions, export duties and price discriminations was singled out.

The ter Meulen Plan, unanimously recommended by the Conference, provided for the appointment by the Council of the League of Nations of an International Commission of bankers and businessmen to which Governments desiring foreign credits were to indicate what assets they could assign as security. Against these assets, the Governments would be able to issue bonds, countersigned by the Commission. The bonds then were to be lent by the Governments to importers who would pledge them with foreign exporters as security for private commercial credits. The bonds were to be thus used only for the import of raw materials and primary necessities according to a schedule to be approved by the Commission.

The ter Meulen scheme, however, came too late. After two years of progressive monetary disorganization, private credits were difficult to obtain even with Government guarantees. Exchange depreciation and inflation had gone too far. Though a nucleus machinery for the application of the Plan was set up by the League of Nations, no credits were negotiated with its help.

[1] International Financial Conference, Brussels, 1920, *Proceedings of the Conference,* Vol. I, p. 19.

*4. The Council and Assembly of the League of Nations, 1920.*

Again on Italian initiative, the raw materials question was brought up at the tenth session of the Council of the League in October 1920. M. Tittoni, the Italian delegate, contrasted the situation of the Haves and Have-nots. He pointed to the natural inequalities in the distribution of physical resources and deplored that the wealthier countries attempted to get richer through the poverty of those less generously endowed. The widespread prevalence of monopoly abuses, export taxes, preferential treatment and dual price systems (a lower price in the domestic, a higher price in the foreign, market) thus "renders existing inequalities still more severe and creates new ones . . ." [1]. Finally, by barriers against imports these countries made it difficult for the less favoured nations to obtain the necessary foreign purchasing power needed for the acquisition of primary commodities. M. Tittoni demanded the nomination of a Commission "to study and present concrete proposals for the prevention of the monopoly of raw materials, either by States or by great international trusts, for the regulation of the distribution of these materials and the assurance to all States of equitable commercial treatment" [2].

The British member on the Council, Mr. Balfour (later Lord Balfour) denied that Italy's raw materials difficulties were caused by practices of exploitation on the part of exporting countries. He objected to the principle "indicated rather than formally expressed" in M. Tittoni's address, "according to which the 'raw material' situated within the limits of any country should in equity be treated as the common property of all the world". Raw materials, Mr. Balfour declared, could not be regarded as unearned gifts of nature. The capital, equipment and skill required for mining a ton of coal were "at least as great as those required for the growth of vines: and if it be said that only in certain parts of the world coal can be extracted, it is quite as true to say that only in certain parts of the world can vines or olives be grown" [3].

It was agreed, however, than an enquiry should be made by the Economic and Financial Committee of the League into the difficulties experienced by many countries in securing the imported materials which they needed. The Committee was to examine particularly: "(a) The extent and the character of these needs; (b) The causes (other than those dependent upon defective credit or fluctuating exchanges,

[1] "Monopolies", Report by M. Tittoni. *Proceedings of the First Session of the Provisional Economic and Financial Committee*, Geneva, 1920–1921, p. 24.
[2] *Procès Verbal of the Tenth Session of the Council*, 1920, p. 219.
[3] *Ibid.*, Annex 121, p. 217.

which have already been examined by the Financial Conference at Brussels) by which these difficulties have been produced, particular attention being paid to the effect of monopolies" [1].

This action by the Council was endorsed by the First Assembly of the League, but only after a sharp discussion in which delegates from a number of primary-producing countries not only expressed opposition to "interference in the free disposal of the national wealth of the various nations" [2] but also questioned the competence of the League, under Article 23e of the Covenant, to consider raw materials problems.

*5. The Gini Report, August 1921.*

Professor Corrado Gini was entrusted with the task of drawing up a report for consideration by the League's technical committees. This report [3], submitted in August 1921, stated that the world economic situation, out of which the proposal for an enquiry into raw materials and foodstuffs had arisen, had completely changed its character before the enquiry could be completed. The immediate postwar boom had collapsed. The report went on to discuss the causes of the difficulties besetting the supply of raw materials that had been experienced—difficulties which, it was pointed out, were likely to recur—as well as possible means by which they might be mitigated.

Three "solutions" for problems connected with raw materials distribution were considered: (1) the nationalist solution; (2) the "socialist" or "state" solution; (3) the "free trade" solution. The nationalist solution, that is, the achievement of self-sufficiency (possibly by territorial adjustments), corresponded to the wartime rather than peacetime interests of states. The political distribution of sources of raw materials became unimportant in time of peace, as long as freedom of commercial organization and of trade in raw materials was the rule. Yet the merits of the nationalist solution had to be judged, "not on the hypothesis of an ideal liberty of trade and concessions, but in view of the real economic policies of States, which differ in a greater or lesser degree from this ideal". Nevertheless, in Professor Gini's view, the nationalist remedy was an impracticable solution for most countries.

The socialist solution involved the creation of a central international organization which would acquire all raw materials and distribute them "equitably" according to the requirements of the individual states. In

[1] *Ibid.*, Annex 121b, p. 225.

[2] Quoted from the speech of the first Canadian delegate. *Records of the First Assembly, Meetings of the Committees*, Vol. I, p. 132.

[3] League of Nations, *Report on the Problem of Raw Materials and Foodstuffs by Professor Gini with Annexes Prepared under his Direction, 1921.*

Professor Gini's opinion, the practical difficulties involved in the operation of such a plan made it unworkable. He substantiated this argument by a review of the wartime system of Executives, which he criticized for "the dilatory and rigid character of their methods of operation and distribution, the incompetence shown by their staffs . . . and the continual difficulty of establishing principles of distribution at once equitable and acceptable to all the interested parties". In addition, there were "the difficulties of fixing prices for purchase and sale when the distributing organization concentrated the whole, or nearly the whole, of the production, and there was, therefore, no market in which a ruling economic price existed".

The free trade solution would involve the establishment, gradually if necessary, of "complete freedom in international trade and in economic relations within individual States". This remedy would not imply common ownership of the world's raw materials and foodstuffs. It would merely require that states in whose territory raw materials were produced could not abuse their power to the detriment of others. Recognizing that this requirement would in itself be a limitation of sovereignty, Professor Gini believed that states would be more willing to submit to an international free trade solution than tolerate the type of outside interference required by what he called the socialist solution.

Professor Gini conceded, however, that: the application of the "free trade" policy which is theoretically desired by so many people would be practically advisable only if a super-State organization could guarantee the continuity of this policy even through a period of economic crisis, and if it could also exclude the possibility of wars which would bring it necessarily to an end. While he did not believe that the League could serve as such a "super-State", he did conclude that the League might take some steps in the direction of the free trade programme. As specific means of moving in this direction he suggested four main steps: (1) the fostering of customs unions among groups of states, as an intermediate stage between national particularism and world organization; (2) representation by the League of the interests of third parties in negotiations for bilateral commercial treaties; (3) intervention by the League to place states, "as it were, at the bar" when they adopted restrictive export duties and similar measures adversely affecting other states; (4) action by the League with a view to eliminating monopolistic practices of a national character.

In addition to these measures for the promotion of freer trade, he proposed that the League should endeavour to secure removal of some of the restrictions on international migration and that "equal oppor-

tunities for the trade and commerce of other members of the League" should be applied to all and not only to certain types of mandates.

Because of the limitations imposed on the enquiry by the instructions of the Council of the League, Professor Gini was prevented from investigating the difficulties in the acquisition of primary products arising from lack of foreign purchasing power, fluctuating exchange rates, and lack of adequate credit facilities.

*6. The Report of the Provisional Economic and Financial Committee, September 1921.*

The Provisional Economic and Financial Committee of the League discussed Professor Gini's report and, in general, concurred in its conclusions. The Committee stated that

> no indication has been obtained of the existence, in any country about which we have obtained precise information, of an urgent need for raw materials which is in danger of remaining unsatisfied, at least through any deficiency of products . . . and that any difficulties still experienced at the present time in obtaining supplies of essential materials are to a preponderant extent difficulties of credit and exchange [1].

The Committee did go on to state, however, that the difficulties of the transition period, which had given rise to the investigation, had stemmed, on the one hand, from the existence of actual shortages, coupled with the general breakdown of sea and land transport, and, on the other hand, from "a number of war or postwar measures tending to reserve certain raw materials wholly or in part to the countries of production, and also to limit and regulate their exportation so that their distribution was often artificial and their prices were usually abnormal".

Following this introduction, the Committee discussed remedies. Some of these were concerned with essentially transitional problems. Such were the recommendations calling for the "systematic readjustment of production to meet postwar conditions", the constant statistical appraisal of supplies in relation to requirements, and "the restoration and improvement of transportation facilities". Other proposals related to less transitory problems. Turning to the question of export restrictions, the Committee, while not "challenging the incontestable right which States have to dispose freely of their natural resources", did assert that

> it is no less incontestable that raw materials produced by one country being in many cases essential to the economic life of other States should

[1] League of Nations, Provisional Economic and Financial Committee, *Report on Certain Aspects of the Raw Materials Problem* (1922), Vol. 1, pp. 6 and 7.

not, unless in exceptional cases, be the object of restrictions or of differential regulations of such a nature as to ignore the production of such States, or to impose on them a systematic inferiority.

It is undesirable particularly, that measures of restriction taken by producing countries to meet exceptional situations should be so prolonged or altered as to change their character and from being acts of precaution or defence to degenerate into measures of economic aggression.

With regard to monopolies, a subject to which it had been requested to give especial attention, the Committee stated that no evidence had appeared which would enable it "to establish any direct connection between the operations of monopolies and any of the difficulties of supply of raw materials which we were directed to investigate".

It expressed the view that the controlled distribution of raw materials by an international office was impracticable for the following reasons:

(a) It would, in our opinion, be impracticable to obtain the general consent of the producing and consuming States to delegate the important functions contemplated by the scheme to an international body, and the League of Nations has no power of compelling its Members to enter into any such arrangement against their will.

(b) No scheme for the international control of the distribution of raw materials could be operated without fixing prices and allocating supplies on some principle of rationing. In our opinion, this necessarily involves the international control of the whole internal economic life of the countries concerned.

(c) No scheme of rationing is possible without the power of compelling the consuming countries to take up their rations and to pay for them, which is clearly impracticable under present conditions.

(d) There is no criterion by which an International Office could fix a reasonable ration of any raw material to be allowed to any country, except either on the basis of previous consumption (which would stereotype the existing distribution of industry), or on some arbitrary estimate of needs which would empower the International Office to dictate the lines of future industrial development of all the States of the League.

(e) If all the above objections could be overcome, the mere loss to productive industry from the inevitable inefficient operation of the bureaucratic machinery of the International Office would probably be fatal to the scheme.

The Committee concluded its report with one recommendation relating to the problem of credit and exchange (a subject excluded from its terms of reference). It suggested that the League of Nations might assist in the work of reconstructing the financial and economic posi-

tion of countries whose finances had been disorganized by the war. The Council of the League, having received the report of the Provisional Economic and Financial Committee, including Professor Gini's memorandum, referred it to the Assembly and called the attention of the Members of the League to "the effects that may be produced by artificial restrictions and duties on the export of essential raw materials on the economic life of other countries" [1]. The second Assembly of the League, meeting in September 1921, discussed the report and expressed general approval of its main provisions in resolutions that were unanimously adopted.

### 7. *The International Chamber of Commerce, 1921.*

At the second meeting of the International Chamber of Commerce, held in London in 1921, the following resolution was adopted:

> This Congress of the International Chamber of Commerce recommends the abolition of such export taxes as Governments have imposed or may impose on the free movement of the raw materials which are included in the list attached hereto.
>
> In the exceptional case of certain countries being obliged, in order to balance their budget, to maintain provisionally on those materials statistical or revenue duties imposed upon exports, these duties should be applied without any discrimination whatever as regards countries [2].

### 8. *The Genoa Conference, 1922.*

This Conference was convened by the Supreme Council for the purpose of finding ways to remove obstacles to a freer flow of international trade. Before the Economic Commission of the Conference, the Soviet delegation urged that "at least in so far as a shortage of raw materials makes itself felt, there should be a systematic and organised distribution of these raw materials . . ." [3] so that reconstruction might proceed more evenly in all States. This was what Professor Gini had called the "socialist" solution of the raw materials problem. The Economic Commission rejected the view that organized distribution was either practicable or desirable. The resolutions which it put before the Conference (and which the Conference accepted subject to reservations by some states) condemned excessive and discriminatory export duties on raw materials, while admitting the right of states to dispose freely of

[1] League of Nations, *Official Journal,* October 1921.

[2] Quoted in B. B. Wallace and L. R. Edminster, *International Control of Raw Materials* (The Brookings Institution; Washington; 1930), p. 322.

[3] See League of Nations, International Labour Conference, Fourth Session, Geneva, 1922, Vol. II, Appendix XVI, *Note on the Distribution of Raw Materials* [bilingual], p. 1112.

their natural resources and justifying moderate duties for revenue. In addition, the Conference urged the adoption of the most-favoured-, nation principle (*i.e.*, non-discrimination) in commercial relations and recommended other measures in the direction of freer trade[1]. The recommendations of the Economic Commission were presented in the form of a Convention which was adopted by the Conference, but none of the participating states ratified the Convention.

*9. Achievements and Improvements.*

The following years witnessed a gradual improvement in the raw materials situation that confronted the European countries. The transition period gave way to one of relative adjustment and prosperity. While some international agreements and resolutions had been ineffective, no little progress, albeit slow, was made in giving effect to others. An example is the floating of large international loans as part of the League of Nations schemes for financial reconstruction in Europe. By 1924 and 1925, a steady stream of foreign capital was flowing into continental Europe and elsewhere.

With currency stabilization achieved, quantitative import restrictions were greatly reduced in number and scope. The high and often discriminatory export duties, common in 1919 and 1920, mostly disappeared. Under League conventions, concluded as a result of the Barcelona Conference in 1921, the normal régime of rail and water communications in Europe was largely re-established. Excessive customs formalities were gradually reduced in scope as one country after another acceded to the League Convention on the Simplification of Customs Formalities of 1923. The Most-Favoured-Nation Clause—which had practically ceased to apply in Europe in 1919 and was strongly opposed by France and Spain even at the time of the Genoa Conference—was again more and more included in commercial agreements, thus helping to re-knit the torn fabric of Europe's economic life. The problem of government intervention to preserve or acquire concession affecting raw materials likewise fell into the background. In the years immediately following the war, instances of such intervention had been numerous and had not infrequently led to international friction[2].

To be sure, by the end of this reconstruction period, economic relationships and conditions were still far from the ideal contemplated by

[1] For the text of the resolutions see *Papers Relating to International Economic Conference, Genoa, April-May, 1922* (London; His Majesty's Stationery Office; 1922), Cmd. 1667.

[2] See, for example, B. H. Williams, *Economic Foreign Policy of the United States* (New York, 1929), pp. 62-68, dealing with the Anglo-American dispute over the Mesopotamian oil question.

some statesmen and conferences, and the appearances of a return to normality were largely deceptive. But it is none the less true that some of the most serious economic effects of the World War had been removed or alleviated [1].

[1] For a discussion of the efforts of the League to give effect to the recommendations for freer trade and equality of treatment, see League of Nations, *Commercial Policy in the Interwar Period: International Proposals and National Policies*. Geneva, 1942 (Ser. L.o. N.P. 1942. II. A.6). Also: William E. Rappard, *Post-War Efforts for Freer Trade*, Geneva, 1938, and Karl W. Kapp, *The League and Raw Materials*, 1919–1939, Geneva, 1939.

# CHAPTER IV

## THE RETURN OF PROSPERITY, 1925–1928

### 1. *The Economic Situation.*

As a consequence of greatly improved trade conditions, the discussion of *general* raw materials problems as problems confronting importing countries and consumers subsided and almost ceased. It was not revived in this form until the 1930's. As pointed out in Chapter III, however, international raw materials problems as problems confronting producers and exporting countries became increasingly urgent. Even during the prosperous years of the later 1920's acute maladjustments in certain producing industries became manifest and gave rise to numerous proposals by affected producers for price-raising schemes through deliberate control of production or exports. Some of these proposals were translated into action and, in turn, caused consumers and importing countries to complain of monopolistic exploitation and discriminations. In time, these complaints led to the discussion of countermeasures, national or international, designed to meet this new danger.

### 2. *Raw-Material Control Schemes.*

Several types and kinds of raw materials control schemes can be distinguished. Obviously, they can be classified on the basis of the different purposes they pursue and methods they employ. A distinction can also be made between national and international arrangements. As far as the purpose of this study is concerned, however, most of these distinctions are of limited relevance. While the formation of control plans may be inspired by several aims, empirical evidence suggests that the central objective is usually to bring about or maintain a price level considered satisfactorily profitable. Regulation schemes actually pursuing a different objective are not likely to arouse serious opposition in importing and consuming countries. The primary cause usually is the prevalence or imminence of depressed prices, ultimately resulting from excess output capacity and surplus stocks. Some form of restraint of competition or direct price-fixing is the most frequent instrument employed.

For the purpose of the present study it is relevant to distinguish between (1) schemes organized and operated by private enterprises (cartels) and (2) schemes set up, supervised or operated by governments. The dividing line between the two classes, however, is quite blurred. There are arrangements that, from an institutional point of view, fall between the two types. Moreover, the effectiveness and legal security of many cartels depends upon the continued absence of anti-cartel legislation, government toleration or more or less tacit support on the part of government. Government backing, participation or direction is more important in the field of raw materials than in the field of manufactured articles. The reason for this is that many raw-material industries are characterized by a large multiplicity of producers which makes effective voluntary co-operation difficult to achieve.

The reasons that prompt governments to organize or support raw-material control schemes are varied. Sometimes the aim is simply to raise revenue. Sometimes governments want to encourage a domestic processing or manufacturing industry by controlling the export of the raw material. Occassionally, governments strive to conserve a waning unrenewable resource or prevent the depletion, by excessive exploitation, of a renewable one (lumber, marine animals). However, in many, if not in most, cases the chief reason for government support is the desire to help producers, or a particular section of them, who vigorously press for such aid.

Some antedated the first World War considerably. Germany's monopoly position in potash was exploited by cartels under increasing government control from the latter part of the 19th century. The production and marketing of platinum and bismuth were regulated by private syndicates long before the war. A sulphur monopoly was established by the government of Sicily in 1838, and a compulsory cartel was established by Italy in 1906. In 1878, Chilean producers combined to restrict the output of iodine and an international zinc cartel existed in Europe as early as 1885. A diamond-selling syndicate has operated since the early 1890's. Greece first exploited its monopolistic position in the production of currants under the "retention act" of 1895; Japan inaugurated camphor control in 1899. The nickel industry was cartellized almost from the beginning of its modern expansion in the 1890's, and the International Nickel Company, founded in 1902, has since come to constitute a world combine with a very high degree of monopoly power. There was an aluminium cartel as early as 1901, and a comprehensive sugar convention (the Brussels Convention) was concluded in 1902. In 1905, Brazil began to experiment with coffee "valorisation". The beginning of production control over sisal in the

Mexican state of Yucatan dates from 1912 and a year later cinchona bark (quinine) from the Netherlands Indies was made subject to marketing restrictions [1].

The early 1920's, however, saw a marked multiplication of raw-material controls. Many new and very important commodities were subjected to regulation. To be sure, some of these schemes were abandoned during the years of reconstruction. But they were usually re-established in the 1930's. Several causes contributed to the rising importance of control arrangements after World War I. The manufacture of war implements often created an enlarged volume of demand for primary products and thus necessitated expansion of production facilities. Also, since many countries were cut off from their customary sources of supply, the war led to the establishment of new industries and the expansion of others and, from a peacetime viewpoint, to a duplication of world output capacities. Sometimes substitutes were developed where such direct duplication was impossible. To some extent, the general shipping shortage had the same effect as the blockade. Following the war, many countries were disinclined to abandon these new industries because they experienced difficulties in acquiring materials abroad, because they had become blockade-minded and, above all, because producers pressed for protection of their new vested interests.

Surplus productive capacity and often huge excess stocks were thus the direct legacy of the war. The ensuing reconstruction boom and its high prices attracted new investments to some industries—with the aggregate response to existing scarcities often constituting distinct overcompensation.

Through the encouragement of very high prices, artificial intervention in the market sometimes added to the attraction of new capital and thereby contributed to the development of excess output capacity. The Bandoeng Pool and the Stevenson Plan thus affected the tin-mining and the rubber-growing industries [2]. Striking improvements in production methods and equipment—better agricultural techniques, superior seeds and breeds, improved mining machinery, etc.—resulted in vastly enhanced productivity. The investment boom of the reconstruction period encouraged the large-scale application of these innovations. The growing discrepancy between production and consumption volumes was reflected in sharply depressed prices which in many in-

[1] See on all these cases, Eugene Staley, *Raw Materials in Peace and War* (New York: Council on Foreign Relations, 1937), Appendix C.

[2] See K. E. Knorr, *Tin Under Control* (Food Research Institute, Stanford University, California, 1945, p. 79; K. E. Knorr, *World Rubber and Its Regulation* (Stanford University Press, California, 1945), pp. 100-101.

dustries resulted in a bitter and protracted struggle for survival rather than speedy contraction of capacity through disinvestment.

Finally, recourse to output or export restrictions as a remedy was greatly facilitated by the general post-war trend away from laissez faire conditions and towards industrial integration and government intervention in economic affairs. Judged in retrospect, the general climate of public opinion favoured protectionism of all sorts. Moreover, the precedents and experience of wartime economic administration had opened the eyes of many business men to the utility and feasibility of administrative concepts and tools. The following examples are presented to illustrate how these various factors contributed to the development of raw material control schemes.

In December 1918 United States copper producers organized the Copper Export Association under the Webb-Pomerene Act. The Association formed a pool to meet problems caused by the existence of large war stocks of copper and wartime expansion of the industry. By 1923 this surplus had been liquidated and consumption was increasing rapidly. The Copper Export Association then broke up, having functioned as a purely defensive organization during the period of adjustment. From 1923 to 1926 the copper industry was characterized by free competition against a background of rising consumption. In 1926, however, the United States producers again combined under the Webb-Pomerene Act to form Copper Exporters, Inc. Foreign firms were brought in as non-voting associates, and in this way the organization gained control of approximately 95 per cent of the world output of refined copper. The announced purposes of the group were to eliminate middlemen, to prevent manipulation, and to "stabilize prices" by price-fixing. Stabilization of prices turned out to mean higher prices. For two years the price of copper was maintained around the 15 cent mark, then it was raised until it reached the remarkable level of 24 cents a pound. Then for an entire year, beginning in April 1929, the price, both for exports from the United States and for domestic sales, was held at 18 cents, in spite of declining sales and rapidly mounting stocks. The control finally broke down in 1930. Copper prices fell rapidly, with disastrous results to manufacturers who had made commitments on the 18 cent basis. The artificially high prices maintained by Copper Exporters, Inc., had hastened the development of new capacity in African and Chilean fields, so that the industry entered the depression in a state of hopeless overexpansion.

Another example of control arising in part out of wartime dislocation is provided by the sugar industry. During the war the output of

European sugar fell from over 8,000,000 tons in 1913 to 2,600,000 tons in the 1919–1920 season. This deficiency was more than offset by the expansion induced by high wartime prices in other areas, especially in the cane-producing regions of Java and the West Indies. Even after the war investment continued in these new areas, although European production recovered more rapidly than had been expected. Tariff and subsidy policies in the United States, certain British colonies and Continental European countries, instituted in some cases as a result of the war-stimulated desire for self-sufficiency, led to still further increases in capacity. In addition, the introduction of an improved variety of sugar cane increased the yield per acre by 20 to 25 per cent. The result of these various developments was that by 1924–1925 world production expanded tremendously and ran far ahead of consumption. Prices fell, particularly distressing countries, such as Cuba, which largely depended on sugar exports. Restriction schemes were inaugurated in Cuba in 1926, and from 1927 to 1929 Cuban representatives made great efforts to bring about international sugar restriction agreements. Negotiations were fruitless at the time but in 1931, under the pressure of world-wide depression, a private international sugar restriction agreement (the Chadbourne Agreement) was reached.

The first postwar rubber restriction scheme was an attempt at voluntary output reduction by British estate-producers in Malaysia during a period of declining consumption and excess stocks in 1920–1921. But voluntary restriction proved ineffective. Upon pressure by the producers, the British Government appointed the Stevenson Committee which—despite the refusal of the Netherlands to participate—advised the establishment of a tight control scheme in 1921. By means of prohibitive export duties, shipments were limited to a prescribed percentage of standard production assessed on productive capacity. Increases and decreases in the percentage were governed automatically by changes in the average quarterly price of rubber. The pivotal (aspired) price was at first set at 1s. 3d. per pound. In 1922 and 1923, rubber prices remained generally below this level. But, once surplus stocks had been absorbed, prices rose and in 1924–25 led to a violent upspurt as consumption and demand volume suddenly expanded and the rigid control mechanism forbade a quick upward adjustment of supplies. In July 1925, the price averaged over $1.00 per pound. High prices stimulated vastly increased production and new planting in the Netherlands Indies and other producing areas outside British control. The result was a cumulative pressure on prices. In 1928, the Stevenson scheme had to be discarded. Like the copper and sugar industries, the

rubber plantation industry entered the depression period with enormous surplus output capacity.

These examples illustrate how groups of producers were proposing controls over the production and marketing of individual commodities as a means of meeting their particular problems. Many other commodities were affected by similar developments during the 1920's. A stronger aluminium cartel appeared. A "permanent defence" of coffee was inaugurated in 1925 by the state of Sao Paulo, Brazil. Intervention by the United States Government in cotton marketing began in 1929. The government of Egypt passed legislation designed to limit cotton acreage, first in 1915 and then several times in the 1920's.

Reorganizations of existing schemes affected the control of currants in Greece, diamonds in South Africa, and iodine in Chile. New Zealand passed the Kauri Gum Control Act in 1925 and set up an export board in 1927. Spain and Italy, controlling 82 per cent of the world's output of mercury, set up an international cartel in 1928. The Chilean Nitrate Producers' Association, actively supported by the Chilean Government after 1919, lost its monopoly power with the rise of synthetic production, but entered a cartel formed by European producers in the late 1920's. In 1927, the Australian Government passed the Pearl Shell Export Control Act and set up a Pearl Shell Control Board. A Franco-German agreement in 1924 became the nucleus of an international potash cartel. A quebracho restriction agreement affecting most of the production of Argentina and Paraguay was first formed in 1916, later lapsed, and was re-established on a firmer basis in 1926. The Japanese Government intervened several times during the 1920's to support the silk market. The control of sisal export and production in Yucatan was strengthened in 1922 and 1926. A European steel cartel was formed in 1926.

The United States producers of sulphur combined for export purposes under the Webb-Pomerene Act in 1922 as Sulphur Exporters, Inc., and in the following year entered into an agreement with the Sicilian cartel, so that the world sulphur trade was largely controlled by this combination.

Under the auspices of the British and Dutch governments, the Bandoeng Pool was formed in 1921 to draw excess tin stocks off the market. An abortive attempt at voluntary output curtailment was undertaken in 1930 before an effective tin control with government participation was established in 1931.

A European zinc cartel, organized in 1928, replaced an international syndicate that had been disrupted by the war, but it soon broke down, to be followed by an unstable world cartel in 1931.

### 3. *Reaction of Consuming Countries.*

Many of these control schemes, and more particularly those established by individual governments or groups of governments in the interest of their producers, gave rise to vigorous protests in other countries and especially in the United States [1], where Congressional Hearings were held on the subject in 1926. The campaign in the United States was led by Mr. Herbert Hoover, then Secretary of Commerce. The methods proposed by him and other members of the government to meet the situation included: diplomatic representations; at least implied threats of retaliation (by tariff adjustments and otherwise); official attempts to close the United States capital market to control schemes (applied in 1925 to the potash syndicate and to the Sao Paulo coffee valorization programme); prosecution of the agencies of foreign raw-material monopolies in the United States under the terms of the Anti-Trust laws; official propaganda to bring about economy in the use of monopolized products; assistance in building up supplies of controlled materials in American territory and in stimulating production outside the controlled areas; research to discover substitutes; and creation of a buying pool among United States rubber manufacturers in order to meet the selling monopoly by a buying monopoly. Most of these measures, except the last, were in fact applied.

It was soon recognized, however, that purely national measures could not provide effective relief against foreign control plans. What was required was international exploration of ways to stop abuses or to find remedies for the producers' problems that would not be likely to lead to abuses. The investigating committees and economic conferences of the League of Nations could have facilitated such understandings. But the United States, the foremost and most powerful opponent of control schemes, was not a member of the League.

### 4. *The World Economic Conference of 1927.*

Held in Geneva under the auspices of the League of Nations, the International Economic Conference of 1927 represented another attempt by the League to reach a solution of international economic problems, including raw material problems, by liberalizing national commercial policies. The Conference declared that "the free circulation of raw materials is one of the essential conditions for the healthy industrial and commercial development of the world", and recommended:

[1] See B. H. Williams, *Economic Foreign Policy of the United States*, New York, 1929, *passim.*

1. That the exportation of raw materials should not be unduly burdened by export duties or any other taxes and that, even in cases where such duties or taxes are justified by fiscal needs or by exceptional or compelling circumstances, they should be as low as possible;

2. That, in any case, export duties on raw materials should never be imposed for the special purpose of subjecting foreign countries using such materials to an increased burden which will place them in a position of unfair inferiority as regards the production of the finished article;

3. That export duties on raw materials, whether levied for revenue purposes or to meet exceptional or compelling circumstances, should never discriminate between different foreign destinations;

4. That the above principles apply equally to export duties on articles of consumption [1].

On the subject of international control agreements, the Conference admitted their possible benefits but cautioned against their disadvantages. The Final Report expressed the view that such agreements represent a development "which has to be recognized and which, from this practical point of view, must be considered as good or bad according to the spirit which rules the constitution and operation of the agreements". The Report warned that "such agreements, if they encourage monopolistic tendencies and the application of unsound business methods, may check technical progress in production and involve dangers to the legitimate interests of important sections of society and particular countries". Hence, it held that these agreements

> "should not lead to an artificial rise in prices, which would injure consumers, and that they should give due consideration to the interests of the workers. It is further necessary that they should not, either in intention or effect, restrict the supply to any particular country of raw materials or basic products, or without just cause create unequal conditions between the finishing industries of the consuming and producing countries. . . . Nor should they stereotype the present position of production, whether from the point of view of technical progress or of the distribution of industries among the various countries in accordance with the necessities imposed upon each by its economic development and the growth of its population" [2].

The Conference strongly recommended the abolition of what remained of the wartime import and export prohibitions and restrictions and urged the adoption of an international convention on this subject which had been under preparation for some time by the Economic

[1] *Report and Proceedings of the World Economic Conference,* Geneva, 1927, Vol. I, p. 42.
[2] *Ibid.,* p. 49.

Committee of the League [1]. It also called attention to the decrease of emigration after the war, and pointed out that states with increasing population density were finding it necessary to intensify their industrialization. Consequently they were attaching "particular importance to the adoption by other countries of a liberal policy in relation to raw materials" [2]. The injurious effects of all trade barriers was emphasized, and the Conference declared that "the time has come to put an end to the increase in tariffs and to move in the opposite direction" [3]. The widest possible application, by all states, of the most-favoured-nation principle was urged.

*5. Convention on Import and Export Prohibitions and Restrictions.*

The draft convention [4] for the abolition of import and export prohibitions and restrictions, which had been endorsed by the International Economic Conference, was completed and prepared for ratification at a diplomatic conference held later in 1927. It was signed by 29 states. The Convention was not limited to raw materials, but it would have involved substantial progress towards a solution of raw-material problems had it been ratified by a sufficient number of countries. Of the ratifications that were deposited, most were conditional upon ratification by other states, and when Poland in June 1930 pronounced that, owing to German reservations, she was unable "to ratify the convention as long as the free disposal of her most important products was restricted by artificial measures in her natural markets", most of the other states withdrew. The Convention was brought into force among seven States—including the United States, the United Kingdom and Japan—but all of these withdrew by 1934.

An attempt to deal with export prohibitions and restrictions by multilateral treaties concerning certain individual commodities or groups of commodities resulted from the negotiations leading to the above convention. One agreement was drawn up abolishing all export prohibitions and restrictions on hides and skins. Export duties other than nominal fees imposed for statistical purposes were also forbidden. The second agreement dealt with bones and similar materials used mainly in making glue. It abolished export prohibitions and restrictions and placed limits on the height of the export duties which might be maintained. These two agreements went into effect among eighteen European countries on October 1, 1929.

[1] *Report and Proceedings of the World Economic Conference*, Geneva, 1927, Vol. I, p. 34.
[2] *Ibid.*, p. 32.
[3] *Ibid.*, p. 41.
[4] See League of Nations, *Commercial Policy in the Interwar Period*, Part I, Ch. III, and Part II, Ch. III, §1 and 2.

*6. Demands for "Lebensraum".*

In pronounced opposition to the efforts of the League to promote a freer-trade solution of raw-material problems, was the continued advocacy during the 1920's of a solution along the lines of national or imperial self-sufficiency. The idea that so-called Have-not countries required colonial acquisitions in order to solve their raw materials problems was nurtured particularly in Japan, Italy and Germany. Popularizing such phrases as *Lebensraum* and *Grossraumwirtschaft,* the newly founded school of *Geopolitik* and the German Colonial Society did their utmost to prepare the German people for the territorial demands that were to be raised by Hitlerian Germany in the 1930's.

*7. Plans of Closer Economic Integration in Europe.*

Of some interest in connection with the raw materials problem is also the plan of a commercially more integrated European continent. The most important proposal of this type was that put forward by M. Briand as Foreign Minister of France, in the tenth Assembly of the League of Nations in 1929, which resulted in the creation of the *Commission of Enquiry for European Union.*

In view of the ominous tendencies in tariff policy that, after the two-year lull following the World Economic Conference, were again apparent, the idea of a world "tariff truce" was also advanced at the 1929 session of the League Assembly.

Yet this proposal was unfavourably received by certain non-European countries which were undergoing industrial development behind high tariffs, as well as by certain European industrial countries, led by France, which were developing a system of high agricultural protectionism under stress of rapidly declining agricultural prices. The Conferences with a view to Concerted Economic Action, which ensued, were therefore confined to Europe. A multilateral commercial convention of a more limited character than the tariff truce originally proposed was finally negotiated, but it failed to obtain the necessary number of ratifications and consequently did not enter into force. In part, this failure was directly connected with the passing of the new (Hawley-Smoot) Tariff Act in the United States and with the deepening of the world economic depression.

## CHAPTER V

## THE GREAT DEPRESSION, 1930–1934

### *1. The Economic Situation.*

The disastrous business slump that hit the world economy late in 1929 changed again the context within which the international raw materials problem was debated. It is generally agreed that the depression affected primary producers and the countries largely dependent on exports of raw commodities more severely than the more industrialized countries. The prices of most raw materials dropped to unprecedentedly low levels. They also declined relatively more than the prices of most manufactures. The terms of trade between raw materials producing and industrial countries changed in favour of the latter [1]. But this change in terms applied to a drastically shrunken trade. The extreme contraction of world trade was the universal difficulty facing raw-material producers and consumers alike. The difference in distress was only a difference in degree.

There was obvious need for attempts at stimulating the recovery of international trade by all feasible means. Yet the dominant response was in the opposite direction. Increased protectionism was the remedy immediately and almost universally adopted. Nearly all governments tried to reserve to domestic producers whatever remnant of effective demand it was possible to wall in by political authority. Among the foremost economic powers, the United States led off in 1930 with the drastic tariff increases of the Hawley-Smoot Act. For two reasons this Act was particularly damaging to the world's economic fabric. First, it became a precedent (and an excuse) for rampant restrictionism throughout the world. Secondly, by increasing import barriers at a time of crisis when large net payments on capital account were due to the United States, this Act added severely to the strain on the world's currency and banking systems. The rise all over the world of quota systems

[1] The quick recovery of Japan, a "Have-not country", from the depression was in part the result of her ability to buy foreign raw materials at exceedingly advantageous prices while the decline in world prosperity diminished the demand for her cheap manufactures less than for the more expensive articles of her competitors. Relatively speedy recovery in Great Britain and some other western European countries was also helped by the importation of cheap primary products.

to restrict imports, of exchange controls, of bilateral clearings, as well as the abandonment of free trade in Great Britain and the inauguration of the Ottawa system of British Commonwealth preferences in 1932, all contributed to the breakdown of what had been a world trading system.

This development in turn intensified the difficulties of raw-material consuming countries in paying for raw materials while the producing countries saw their markets contract still further. With a view to stimulating foreign sales, numerous export duties, which primary-producing countries normally imposed for revenue purposes, were abolished. Thus, the Chilean tax on nitrates and other exports was removed in 1930, the Mexican tax on sisal exports in 1931. Bounties, rather than duties, on exports of primary products became the rule [1].

*2. Spread of Control Schemes.*

At the same time, the trend towards the formation of raw-material control schemes was accentuated. To be sure, some controls collapsed under the sudden impact of the depression. But the prolonged distress of the early 1930's generated a seemingly irresistible demand for effective limitation of cut-throat competition. The upshot was a marked increase in the number of control plans and in the scope of those already in existence. Many international controls were created where regulation had been national before. As producers' troubles became intensified, government support and government sponsorship were accorded more freely than in the 1920's. The following is a condensed summary of this development in the case of some important commodities [2].

Under the stress of the depression, a much stronger aluminium cartel was set up in 1931. During the middle 1930's, the Franco-German potash cartel, founded in 1924, extended its network of agreements in other countries. The great oil companies reached a measure of agreement on production quotas and marketing areas at conferences begun in 1931. In the same year, jute manufacturers in India introduced a voluntary restriction scheme, Hawaiian pineapple producers formed an association for the reduction of output, and a world zinc cartel replaced the European cartel which had broken down the year before. Likewise in 1931, the International Tin Control Scheme was set up under government auspices to regulate production and exports of the

[1] Henry Chalmers: *Foreign Tariffs and Trade Control Movements, 1930–31,* in *Commerce Reports,* April 20, 1931.

[2] For the text of international control agreement for wheat, sugar, tea, coffee, beef, tin, rubber and cotton, see International Labour Office, *Intergovernmental Commodity Control Agreements* (Montreal, 1943).

metal and an international sugar agreement (the Chadbourne Agreement) was concluded. A new platinum cartel, including Soviet Russia, and joint regulation of lead prices and production were also established in 1931.

The following year witnessed a series of conferences from which developed a European cartel regulating the lumber trade. Since 1933 an International Tea Committee has regulated shipments from the principal producing countries. An international wheat agreement was also reached in 1933 and a Wheat Advisory Committee appointed to operate it. The European Steel Cartel, which had expired in 1930, was reorganized in 1933 and greatly extended its scope in the following years. The United States took measures to raise the price of silver and, under its leadership, an international silver agreement was reached in 1934. The output of cotton in the United States, the world's largest producer, was made subject to restriction after 1933. In April 1934, the International Rubber Regulation Agreement was signed, covering the entire area of the tropical east—the source of over 90 per cent of the world's crude rubber. In the same year, the control of cinchona bark (quinine) exports from the Netherlands Indies was strengthened by the adoption of a government licensing system. In the summer of 1936, coke exporters in northern Europe reached an agreement which was regarded as a first step towards a comprehensive international coal cartel, but subsequent negotiations failed because no agreement was forthcoming on a basis for allocating exports.

A surprisingly large number of these controls were set up towards the end of the depression period and, as will be demonstrated in Chapter VI, this trend did not abate in the late 1930's. The reasons that gave rise to the pressure for such schemes—world surplus productive capacity—did not disappear as the depression receded. Moreover, the impact of the world economic slump had made controls more acceptable than before.

At the Imperial Economic Conference in 1932 Mr. Neville Chamberlain, then Chancellor of the Exchequer, remarked that "if we are to restore stability of price and confidence in the future of the market for the great primary commodities, we must look for some means of regulating supplies in such a way that they shall not be from time to time completely out of relation to the absorbing capacity of their markets"[1]. The change in the official attitude of the United States was particularly significant. The emphatic and sweeping disapproval of governmentally supported control schemes voiced by Mr. Hoover in the 1920's disappeared. In the 1930's, control schemes were not op-

[1] *Imperial Economic Conference at Ottawa*, 1932, Cmd. 4175, pp. 169-170.

posed as such, although the United States did make vigorous and repeated representations against the supply *policy* of such controls as those operating in the rubber and tin trades. It exerted pressure on behalf of American consumer interests, but did not object to controls in principle [1]. Indeed, internally, the United States experimented extensively with controls in agriculture and industry (especially during the NRA period) and in diplomacy promoted international controls over commodities in which American producers were particularly interested, such as wheat, silver, and copper.

There would seem to be two explanations of this change in attitude —which was clearly manifested at the London Monetary and Economic Conference referred to below. First, government intervention in economic life had come to be more widely accepted in general. Secondly, there was no longer a physical scarcity of any important raw material, and industrial countries realized their direct interest in restoring the shattered purchasing power of primary producers. In principle, regulation schemes were widely accepted as an expedient to achieve this end.

*3. Monetary and Economic Conference, London, 1933.*

At the London Conference much attention was paid to "the co-ordination of the production and marketing" of a long list of primary products, usually with a recommendation expressed or implied that an international control scheme should be instituted or extended. The predominant attitude toward controls was in marked contrast to that observable at the World Economic Conference of 1927. The report of the Economic Commission as approved by the Conference on July 27, 1933, summarizes proposals regarding dairy products, sugar, wine, coffee, cocoa, timber, coal, copper and tin [2].

An attempt was made to lay down certain principles which would apply to all international control schemes. The Conference approved a report in which the following principles were stated:

> 1. In order to assist in the restoration of world prosperity, it is essential to increase the purchasing power of the producers of primary products by raising the wholesale prices of such products to a reasonable level.
>
> 2. In the exceptional conditions of the present world crisis, concerted action is required for this purpose. Apart from any other measures that may be taken to restore the purchasing power of producers and consumers and thus to increase demand, it is desirable that plans should be adopted for co-ordinating the production and marketing of certain commodities.

[1] See Staley, *op. cit.,* pp. 133-136.

[2] League of Nations, Monetary and Economic Conference, *Reports Approved by the Conference on July 27th, 1933 . . .,* p. 21.

3. Any agreements to give effect to such plans should conform generally to the following conditions:

(a) The commodity must be one of great importance for international trade in which there is such an excess of production or stocks as to call for special concerted action.

(b) The agreement should be comprehensive as regards the commodities to be regulated, that is, it should not be so narrowly drawn as to exclude related or substitute products, if their inclusion is necessary or desirable to ensure the success of the plan.

(c) It should be comprehensive as regards producers, that is:

(i) it should in the first instance command a general measure of assent amongst exporting countries, and within these countries a substantial majority of the producers themselves;

(ii) where necessary or desirable for the success of the plan, it should provide for the co-operation of non-exporting countries whose production is considerable.

(d) It should be fair to all parties, both producers and consumers, it should be designed to secure and maintain a fair and remunerative price level, it should not aim at discriminating against a particular country, and it should as far as possible be worked with the willing co-operation of consuming interest in importing countries who are equally concerned with producers in the maintenance of regular supplies at fair and stable prices.

(e) It should be administratively practicable, that is, the machinery established for its administration must be workable, and the individual Governments concerned must have the power and the will to enforce it in their respective territories.

(f) It should be of adequate duration, that is, it should contain provisions for its continuance for such a period as to give assurance to all concerned that its objects can be achieved.

(g) It should be flexible, that is, the plan should be such as to permit of and provide for the prompt and orderly expansion of supply to meet improvement in demand.

(h) Due regard should be had in each country to the desirability of encouraging efficient production.[1]

In the Sub-Commission which drew up and unanimously approved these principles (to which the Conference also gave its approval), several delegations "strongly emphasized the necessity of not prejudicing the future of the consuming countries, and in particular those which lack raw materials", whereas others regarded production and marketing controls "as so many parts of a concerted scheme intended to give fresh impetus to economic life" [2].

[1] League of Nations, Monetary and Economic Conference, *Reports Approved by the Conference on July 27th, 1933* . . . , pp. 19-20.
[2] *Ibid.*, p. 20.

Once more, as in all previous conferences held under the auspices of the League, the delegations agreed on the desirability of reducing the maze of barriers obstructing international trade—barriers that now consisted not only of excessively high tariffs, but also of quotas, exchange controls, and various forms of indirect protectionism. In the Sub-Commission on Commercial Policy, some delegations made reservations, however, in regard to the maintenance of quotas for agricultural products "until such time as sufficient progress has been made in the international co-ordination of production"[1]. Other delegations, representing agricultural countries, declared that "their countries could not abolish the import prohibitions imposed on manufactured articles so long as other countries found it necessary to maintain restrictive measures on the import of agricultural produce". Still others expressed the opinion that "maintenance or introduction of certain restrictions may be necessary as a means of carrying on concerted programmes for the co-ordination of production and marketing".

*When negotiations for currency stabilization, the chief purpose of the* Conference, finally broke down, whatever slight hope there may have been of concrete accomplishment in the field of trade policy disappeared. Several delegations, according to the Report of the Sub-Commission on Commercial Policy, "deemed it necessary to reserve full liberty of action in the matter either of quantitative restrictions, or foreign exchange control or customs tariffs".

[1] League of Nations, Monetary and Economic Conference, *Reports Approved by the Conference on July 27th, 1933* . . . , p. 22.

## CHAPTER VI

## IMMINENCE OF WAR, 1935–1939

### *1. The Economic Situation.*

The relative prosperity of the middle and late 1930's was delusive. It rested on precarious foundations. The rapid recovery of 1936–37, succeeded by the recession of 1937–38, lent it instability. Above all, serious political tensions and conflicts, more and more coming to the foreground, overshadowed the discussion of strictly economic problems. The world was on its way to war.

In the sphere of international trade, barriers were increased rather than diminished. Protectionism, restrictive and discriminatory practices, bilateral bargaining, and government interference with business gained further ground, under the circumstances only slightly affected by the efforts of Secretary of State Cordell Hull to utilize the Reciprocal Trade Agreements Act of 1934 toward the abatement of tariff walls and discriminatory devices.

Raw-material control schemes continued to govern the supply of numerous primary products. Old control arrangements were retained and new ones created. Thus, coffee "valorization", previously carried on by Brazil only, was internationalized by an agreement among nine Latin American countries in 1936, paving the way for the establishment of the Inter-American Coffee Agreement of 1940. A new international copper scheme was organized in 1935 by Chile, the Belgian Congo and Rhodesia, and secured the co-operation of Canadian and United States producers. Governmental restriction of jute production was introduced in British India in 1935. A new lead agreement was adopted in 1935 and in 1938, followed by an International Lead Producers' Association which adjusted production to the requirements of all markets except the United States. Since 1937, regulatory arrangements have been in force between the United Kingdom, the chief beef importing country, and such producing countries as Australia, New Zealand, Ireland, the Argentine Republic, Brazil and Uruguay. A new agreement concerning the Regulation of the Production and Marketing of Sugar was opened for signature at London in May 1937. The majority of the signatories of the moribund Wheat Agreement of 1933

began discussions in 1938 which eventually led to the Washington Wheat Agreement of 1942.

*2. The Claims of the "Have-nots".*

Germany, Italy and Japan posed as the world's ill-treated "Have-not" nations. On the one hand, they took comprehensive measures to become economically more self-contained. Thus, in 1934, Germany launched a "four-year plan", designed to decrease the country's dependence on foreign raw materials and, thereby, its military vulnerability. Mussolini stated in 1936 that "political autonomy means the possibility of an independent foreign policy, and cannot be conceived without a corresponding capacity for economic autonomy" [1]. On the other hand, these countries coupled the raw materials problem, as they conceived it, with the question of colonies. They claimed that a redistribution of colonial territories could be made to improve their raw materials position.

In response, public opinion in Great Britain was disposed to assuage these grievances where they appeared legitimate. Various groups and prominent individuals favoured implementation of the Open-Door principle in all colonies as well as other measures designed to extend equal treatment to all countries in the purchase of colonial primary products [2]. However, it was also pointed out that currency overvaluation and large armament programmes were the main causes of raw materials shortages in Germany and Italy.

The official British objections to the application of the open door in the Colonial Empire, as stated in 1937 by the Prime Minister, Mr. Baldwin, and the Under-Secretary of State for Foreign Affairs, Lord Plymouth, may be summarized as follows [3]:

a) it was undesirable in the interests of the colonies themselves;

b) it would "favour the trade of countries with an exceptionally low level of labour costs, to the disadvantage of the trade of other countries with higher labour standards";

c) in the great majority of the African colonies the open door was in force under long-standing international agreements; there was no evidence that Germany encountered any difficulty in exporting to the other colonies;

[1] Quoted in E. Moresco, *Colonial Questions and Peace* (International Institute of Intellectual Co-operation; Paris, 1939), p. 69.

[2] See: Sir Arthur Salter, *Economic Policies and Peace* (London, 1936), p. 32; *The Demand for Colonial Territories and Equality of Economic Opportunity* (London, 1936); Royal Institute of International Affairs, *Germany's Claim to Colonies* (London, 1938).

[3] Royal Institute of International Affairs, *Germany's Claim to Colonies* (London, 1938), p. 47.

d) "the abolition of preferences in the Colonial Empires would not, by itself, do much to solve the payments difficulties experienced by many Powers . . . and, in particular, [by] Germany".

In concluding his statement before the House of Lords, Lord Plymouth expressed the Government's belief that a more fruitful line of approach to the solution of the economic difficulties was to be sought in the deliberations of the Committee on Raw Materials of the League of Nations [1].

It is clear, however, that none of the proposals of an "Open Door" nature would have met Germany's demands. In May 1936, Count Schwerin von Krosigk, German Minister of Finance, said that "the colonial problem of Germany cannot be got rid of with the argument that a sufficient supply of raw materials can be assured to her by the policy of the Open Door. Only the possibility of buying a sufficient quantity in our own currency can produce a proper balance of Devisen for Germany" [2]. Similarly, Dr. Hjalmar Schacht, then German Minister of Economics and President of the *Reichsbank*, asserted that Germany must produce her raw materials on territory under her own management and her own monetary system. To those "people who are always talking of free trade and the lowering of tariff walls", he replied: "Everybody agrees with them, but no one has yet succeeded in translating their ideals into reality. The reason for this is very simple. It lies in the fact that a nation's economic strength plays an extraordinarily important part in determining its political situation. Today the possession of raw materials has become a political factor, just as the voluntary change of the currency standard has become a political instrument" [3].

*3. Enquiry into Raw Materials by the League of Nations.*

In 1935, when she prepared to attack Ethiopia, Italy complained bitterly of excessive population pressure on her limited resources and the difficulties in satisfying her raw materials needs. Sir Samuel Hoare, before the Assembly of the League of Nations, stated that "there was no question at that time of any colony withholding its raw materials from any prospective purchaser". The source of anxiety over non-possession of sufficient colonies seemed to lie rather in the fear that the existing colonial powers might attempt to exploit their monopolis-

[1] See below, pp. 57 *et seq.*
[2] Quoted in *Germany's Claim to Colonies*, p. 30.
[3] Hjalmar Schacht, "Germany's Colonial Demands", *Foreign Affairs*, Vol. XV, No. 2 (January 1937), pp. 230-233.

tic positions in the future [1]. Sir Samuel proposed an enquiry into the problem of access to raw materials from colonial areas.

This British proposal was shelved when Italy invaded Ethiopia. In October 1936, however, it was renewed as Germany's colonial demands became increasingly violent. The Assembly of the League then adopted a resolution directing an enquiry into "the question of equal commercial access for all nations to certain raw materials" [2]. The inclusion of the words "commercial access" by implication excluded any consideration of territorial claims. Non-members as well as League members were invited to participate and the Committee included experts from the United States, Brazil and Japan. Germany and Italy, however, refused the invitation.

The Committee made its report in 1937. It noted two classes of complaints regarding access to raw materials:

> "On the one hand, difficulties were felt regarding the *supply* of raw materials—that is, certain countries considered that, even when they were in a position to pay for all the raw materials they required, they either could not obtain them at all or were compelled to pay what was in their view an excessively high price for them. On the other hand, certain countries experienced principally difficulties in regard to *payment*—that is, they felt that, even when ample supplies were available, they themselves were, for reasons beyond their control, unable to obtain the necessary foreign exchange to pay for their requirements" [3].

"The difficulties in regard to payments", the committee found, "vastly transcend in importance those in regard to supply" [4]. It pointed out—as had the Economic Committee sixteen years before—that the only general and permanent solution of the problem of payment for raw materials was restoration of international exchange on the widest possible scale. It recommended relaxation of restrictions to permit freer circulation of capital, goods and labour. In particular, it suggested progressive liberalization of the import quota system, with a view to its ultimate abolition; bilateral and multilateral action to reduce tariffs; possible generalization of the open door principle; provision for greater freedom of communications and transit; abolition of, or at least improvement in the elasticity of, clearing systems; closer cooperation of central banks; financial aid to enable countries to abandon exchange

[1] League of Nations, *Official Journal*, "Records of the Sixteenth Ordinary Session of the Assembly, Plenary Meetings, Text of the Debates", p. 45.
[2] League of Nations, *Official Journal*, "Records of the Seventeenth Ordinary Session of the Assembly, Plenary Meetings, Text of the Debates", p. 141.
[3] League of Nations, *Report of the Committee for the Study of the Problem of Raw Materials* (Geneva, 1937), p. 11.
[4] See *ibid.*, p. 30.

control, and assistance from the Bank for International Settlements and in other ways to facilitate this process; and in general all measures that might help to restore equilibrium between different economic systems and to establish more stable currencies [1].

The difficulties with regard to supply were noted under five heads: Prohibitions and restrictions on the export of raw materials, Export duties, Development of natural resources, Monopolies, and International Regulation Schemes. Although the Committee reached the conclusion that such difficulties were of limited importance, it may be useful to summarize the principal findings under each of these heads:

(*a*) *Export Prohibitions and Restrictions.*

The Committee found that temporary export prohibitions on certain foodstuffs, imposed in the event of short crops, could not be seriously objected to. Prohibitions imposed upon the export of certain industrial raw materials, such as scrap iron, with the object of retaining them for domestic use, could not in principle be opposed. "A country is entitled to a first call on its own resources . . .". On the other hand, the Committee censured prohibitions on the export of planting material for the purpose of preserving a monopoly of production, such as was imposed by the Philippines on the export of the abacá palm, the source of manila hemp. But the Committee made a reservation as regards such prohibitions when imposed by international commodity control schemes (rubber).

The Committee next discussed prohibitions or restrictions "for the purpose of preserving for the country of production (or, in the case of colonial territories, the metropolitan country) the right to apply some form of processing to the raw material in question before export". "Exporting countries", the Committee observed, "contend that this class of restriction is due to the fact that various countries make it a practice to place high import duties on articles to which the simplest form of processing has been applied in order to maintain in their own territory processing industries which, without such protection, could not have established themselves". It felt that such restrictions cannot, in general, be justified, but found it "difficult to condemn such a practice on grounds of a general principle".

Regarding restrictions in connection with international and national commodity regulation schemes (the Netherlands East Indies' restrictions on the export of cinchona bark and the Brazilian control of coffee exports were cited), the Committee held that they must be judged ac-

[1] League of Nations, *Report of the Committee for the Study of the Problem of Raw Materials* (Geneva, 1937), pp. 26-27.

cording to the way in which they were operated. Restrictions aimed at securing "reasonably remunerative, but not excessive" prices and at ensuring absence of unmanageable stocks were not open to serious objection.

The following conclusions were reached:

> The Committee considers that, while certain prohibitions and restrictions can be justified, when they are of the nature of defensive measures, serious objections can be taken to prohibitions or restrictions which are designed to apply pressure to other countries, to preserve uneconomic industries or to maintain an artificial level of prices, either by creating an excessive supply in the internal market, by starving the market or by maintaining monopolies or quasi-monopolies. The Committee has not been able to find any substantial evidence of such impediments; but, in so far as they may exist, it desires that they should be removed at the earliest possible moment and therefore recommends that all nations, either by autonomous action or by an international convention, should bind themselves not to use prohibitions or restrictions on export for such purposes [1].

(b) *Export Duties.*

Export duties are often imposed as part of restrictions or prohibitions. To that extent the conclusion, given above, applies. When such duties are imposed on particular products for the purpose of establishing a fund for the improvement of the industry concerned (*e.g.*, duties on rubber exports imposed by the parties to the Rubber Regulation Scheme), the Committee found, they were invariably small and no complaint regarding them had been brought to its notice. Regarding export duties for revenue purposes, the Committee considered that in certain conditions such duties "constitute the most convenient and equitable form of taxation" and that, if they were not imposed, "they would have to be replaced by some form of direct taxation . . . or by import duties which . . . would operate as a more serious barrier to international trade". Finally, the Committee considered differential export duties, including rebates granted by a colonial territory to its metropolitan country. The Committee observed that it had "no knowledge of any complaint in sufficiently precise terms to enable it to determine whether any real discrimination, such as it naturally could not approve, is involved" [2].

(c) *Development of Natural Resources.*

Certain Committee members pointed to the importance of removing obstacles to the development, in certain countries, of physical resources

[1] League of Nations, *Report of the Committee for the Study of the Problem of Raw Materials* (Geneva, 1937), p. 14.
[2] *Ibid.*, p. 15.

by foreign companies. The Committee observed that countries which were, or might become, important suppliers of primary products "have a responsibility not unreasonably to hamper the development of their raw materials". So far as sovereign countries were concerned, it considered that a "rigid restrictive policy is impossible to defend" although governments were entitled to reserve certain favours to its nationals and to exercise a measure of control over the development of their resources by foreigners.

Regarding colonial territories, the Report found no special privileges reserved for the nationals of metropolitan countries in the Belgian, British [1], Dutch and Portuguese colonies. The same condition held true of parts of the French Colonial Empire for agricultural and forestry concessions and of the overseas territories controlled by the United States. The Committee admitted, however, that—owing to administrative practices, common language, cultural affinities and established business connections—nationals of metropolitan countries usually enjoy an advantage over foreigners even where no formal privileges are accorded.

The Committee recommended that, wherever laws or policies create inequality of opportunity in the exploitation of colonial resources, the governments concerned should be invited to consider a progressive modification of this state of affairs. The Report also suggested that the regime of the Open Door, prevailing in the Congo Basin and in the A and B Mandates, should be extended to apply to the development of natural resources in "other territories that are sparsely populated and whose resources are inadequately developed" [2].

(*d*) *Monopolies.*

Monopolies resulting from a coalition of producers in different countries or created by governments are dealt with below. Regarding natural monopolies (*e.g.*, jute in India, cinchona bark in the Netherlands Indies and natural camphor in Japan), the Committee was of opinion that "the few natural monopolies in existence do not constitute real obstacles to the circulation of raw materials. Furthermore, so far as the Committee is aware, no complaint or claim has been made in regard to this matter" [3].

(*e*) *International Regulation Schemes.*

General approval was given to governmental control schemes, the

[1] The one exception in the British Colonial Empire relating to petroleum, it was noted, was scheduled to be removed in 1938.

[2] League of Nations, *Report of the Committee for the Study of the Problem of Raw Materials* (Geneva, 1937), p. 15.

[3] *Ibid.*, p. 18.

Committee adding that "schemes of this kind, in so far as they restore the purchasing power of communities which are normally large purchasers of imported goods and thus lead to a marked increase in their imports, are to be welcomed as a valuable means of restoring international trade". It was noted with satisfaction that "nearly all these schemes now provide for representatives of the consumers to be associated with the operation of the scheme, either in an advisory capacity, as in the case of tin and rubber, or as constituting part of the managing body, as in the case of sugar"; and, further, that "the bodies managing these schemes make it their practice to publish the fullest possible information regarding their proceedings and the statistical position of the commodities which they control" [1].

The Committee did not feel that the data before it enabled it to appraise fully private control schemes, such as those regulating the supply of copper and other metals. It maintained, however, that all such schemes should provide for the representation of the consumer and for adequate publicity[2] and suggested that the governments concerned should carefully consider the advisability of assuming the direction of these private regulatory schemes, observing that Committee members were "impressed by the argument that consumers (persons and countries) feel a confidence in the administration of schemes under government control which they do not feel in the administration of schemes of a purely private character" [3]. A particular obligation was held to rest upon the bodies administering raw-material control schemes to prevent prices from rising to unreasonable levels. The Committee felt that prices would fluctuate more violently without than with regulation, and that "the remedy for these variations in price should be sought in the improvement of the regulation schemes" [4]. One expedient that had been recommended, the Committee observed, was the creation of "buffer stocks", which might be operated either on the responsibility of producers alone or in collaboration with certain consumers.

In an Appendix to the report, two members of the Committee discussed the question of buffer stocks in some detail. To create effective buffer stocks for the correction of excessive movements, especially in an upward direction, these Committee members suggested that the governments of the principal consuming countries form buffer stock committees and invite representatives of restriction schemes to co-operate in the establishment and operation of a buffer stock. The conditions of the buffer stock agreements should provide that (1) no stocks would

[1] *Ibid.*, p. 18.
[2] *Ibid.*, p. 18.
[3] *Ibid.*, p. 19.
[4] *Ibid.*, p. 20.

be released from or added to the stock except at definite price ceilings or floors "to be agreed upon from time to time between the consumers' and producers' representatives on the controlling body", and (2), in the event of the discontinuation of the scheme, the buffer stock would be liquidated over a period of time agreed to in advance.

These two Committee members also mentioned another interesting possibility. Provided a buffer stock organization were financially strong and its stocks of substantial dimensions, it might possibly

> "serve the purpose of assisting consumers in countries which are embarrassed by the lack of raw materials, which otherwise they would be unable to obtain. Such consumers, while they were not in a position to find the necessary foreign exchange for the purchase of raw materials, might be in a position to guarantee the payment within a fixed period after the delivery of supplies"[1].

To the bitter political issues at the bottom of the agitation over "access to raw materials" only brief allusion is made. The Committee observed, for example, that "the difficulties now experienced by certain states in paying for raw materials would immediately be alleviated if a political settlement were forthcoming which would permit them to reduce their present armament expenditures"[2]. The question of colonial redistribution was indirectly touched upon in the observation that the production of commercially important raw materials in all colonial territories was not more than 3 per cent of world production and that the share of colonial territories in international trade in 1936 was only 9.7 per cent of world exports and 8.1 per cent of world imports.

The Soviet member added a rider to the report expressing the view that the Committee, in its technical task, should "show clearly that the obstacles, especially of a financial nature, in the way of access to raw materials, of which certain industrial States complained, were due in the first place to their armaments policy, their ambitions and aggressive acts[3].

### 4. *Recommendations of the Economic Committee of the League of Nations, 1937.*

The conclusions reached by the Raw Materials Committee were "endorsed generally" by the 1937 Assembly, which requested the Economic and Financial Committees to study the methods that could suitably be employed to put these conclusions into effect. The Economic Commit-

[1] *Ibid.*, pp. 61-62.
[2] *Ibid.*, p. 23.
[3] *Ibid.*, p. 30.

tee, while recognizing that it was "dealing with only one aspect of an extremely complex problem and that accordingly the proposals can have only a limited value", proceeded to formulate principles in regard to export prohibitions, restrictions and duties, the development of natural resources, international regulation schemes and monopolies [1].

The principles to which it was suggested "Governments should conform, so far as possible", were as follows:

A. *Prohibitions, Restrictions, and Duties on the Export of Raw Materials.*

1. Raw materials should not be subjected to any export prohibition or restriction except in pursuance of an international regulation scheme, which is being operated in accordance with the principles set out in Section C below, or some other international agreement between exporting and importing countries.

2. Raw materials should not be subjected to any export duties except duties imposed at a uniform rate irrespective of the country to which the goods are exported either (a) for revenue purposes, or (b) in order to finance arrangements for improving the production, utilization or marketing of the raw material in question.

B. *Development of Natural Resources.*

Foreigners should have the same rights and facilities as nationals for developing the natural resources both of sovereign countries and of Colonial territories, subject to their obeying the laws and regulations of the countries concerned.

This principle should be introduced by degrees where it is not already in force, and applied as fully as possible.

It is recognized, however, that provisions may be necessary to regulate the conditions of admission and settlement of foreigners, and also, in Colonial territories, to safeguard the interests of the native inhabitants; but such provisions should not be applied in such a way as to neutralize the possibility of foreign participation nor, in Colonial territories, to place nationals of the metropolitan country in a privileged position.

C. *International Regulation Schemes relating to the Supply of Raw Materials.*

International regulation schemes should be so framed as to admit effective association of consuming interests with their administration, and to make available adequate information regarding their operation. They should be administered in such a way as to provide consumers with adequate supplies of the regulated material, to prevent, so far as

[1] League of Nations, Economic Committee, *Report of the Council on the Work of its Forty-Seventh Session,* held at Geneva from December 6th to 9th, 1937, pp. 2-4.

possible, the price of the regulated material from rising to an excessive height, and to keep that price reasonably stable.

In so far as Governments are themselves parties to a scheme, they will of course be responsible for seeing that the scheme is framed and administered in accordance with these principles.

In so far as Governments are not themselves parties to a scheme, they should be ready, so far as circumstances permit, to use their influence to secure the application of these principles by their nationals parties to the scheme.

In either event, they should be ready to take all possible steps to ensure the investigation of complaints by other countries in regard to the operation of the scheme.

To this formulation of principles, the Committee added certain important qualifications:

"With the best will in the world, exporting countries cannot pursue as liberal a policy as they would wish in regard to the development and export of their raw materials, if those countries which are accustomed to import raw materials are determined for their part to pursue policies which might seriously prejudice the interests of raw-material-producing countries, particularly in such matters as the uneconomic production of substitutes.

"Further, if raw materials have to be processed before they can be used for manufacture, it is often natural that they should be processed in the producing country, provided that the process can be carried out most economically there. In such case, importing countries cannot reasonably expect the exporting country to place no export duty on the raw material if they themselves place high import duties or even prohibitions on the import of the processed material and thereby adversely affect the processing industry of the producing country.

"It should also be pointed out that, if an international scheme for the regulation of supply of a raw material is to operate smoothly, it will be essential to obtain the co-operation of the consumers who are equally concerned with producers in the maintenance of supplies at fair and stable prices.

"Again, if a country produces only a small quantity of a particular raw material as compared with its requirements, it would not be unreasonable if it felt unable to allow export".

Finally, the Committee stated that "any assurances which States might be asked to give" in respect to the conditions governing the supply of raw materials "would be really effective only if they formed part of international action on a wide scale covering . . . the difficulties of payment and those arising from the contraction of external markets and the discontinuance of international lending, in short, all those ob-

stacles which impede the normal working of the mechanism of international exchanges".

Governments were invited by the Committee to submit their observations on these proposals and replies were received from the Governments of Belgium, the United Kingdom, Bulgaria, Egypt, France, the Netherlands, Norway, Poland, Switzerland and the United States of America. Of these replies two, those from the United States and Poland, are of especial interest. The United States Government was "prepared to give the most sympathetic consideration to whatever action is proposed" and was of opinion that "action in this field should be as far-reaching and as effective as proves to be possible". Poland, one of the countries which had felt most acutely the difficulties of access to raw materials, considered that the Committee's principles might be taken as a starting-point for international action, but formulated a number of criticisms of the approach to the general problem adopted by League organs. All the other Governments were generally in favour of the application of the Committee's principles but *most of them doubted whether the time was ripe for international action.*

Reviewing the position in the summer of 1938 [1], the Economic Committee was "compelled to recognize that the first part of the resolutions adopted by the Committee for the Study of the Problem of Raw Materials . . . could not, unfortunately, form the subject of any international action in present circumstances". It noted, however, that "one of the most important recommendations of the Raw Materials Committee—viz., that relating to the formation of buffer stocks to supplement schemes for the regulation of production with a view to moderating the movements of prices of the raw materials in question—had been given careful consideration and that proposals had recently been published providing for the organization of such a buffer stock in the case of tin".

Various authors suggested that the operation of international regulation schemes should be subjected to the effective representation of consumers' interests or to direct control by an international supervisory agency [2]. In 1938 Mr. J. M. (now Lord) Keynes proposed that strategic stockpiles of raw materials be utilized for exerting a stabilizing influence on raw commodity prices. According to this plan the British Government would purchase basic materials while their prices are low in

[1] Economic Committee, *Report to the Council on the Work of its 48th Session,* 1938. C. 233. M. 132. 1938. IIB.

[2] Staley, *Raw Materials in Peace and War,* p. 116; Frederick S. Dunn, *Peaceful Change: A Study of International Procedures* (New York, 1937), pp. 39, 132-133; William Oualid, *International Raw Materials Cartels* (International Institute of Intellectual Co-operation, Paris, 1938), pp. 49-55.

terms of gold and sell part of the stocks when prices are high [1]. In effect, Mr. Keynes proposed a dual-purpose buffer-stock.

International raw materials issues were, of course, the subject of many studies by private experts and associations. The International Studies Conference of 1937, held under the auspices of the International Institute for Intellectual Co-operation, also dealt with these problems as far as they concerned the prospects of "peaceful change". Professor Etienne Dennery, the rapporteur on raw materials questions, noted that of the direct restrictions on the sale of primary commodities—that is, export taxes, embargoes and control schemes—international regulation plans far outranked the others in importance. But among the writers of memoranda there was considerable disagreement over the advantages and disadvantages of international commodity regulation. Some declared that the disadvantages had been exaggerated and that, by saving producers from bankruptcy and capital consumption in times of depression, such schemes actually permitted a rapid response of production to post-depression demand. Other writers concluded that "the disadvantages for consumers very clearly predominate in the restrictive plans" [2].

The effort of the League of Nations in 1937–38 was the last international effort in the 1930's to discover suitable solutions for international raw materials problems. Some further last minute attempts were made to assist in the liberation of international trade from an ever-increasing number of shackling restrictions. But political events completely frustrated these endeavours. Measures to bolster aspirations to economic self-sufficiency were increased in scope, and the world market disintegrated progressively. What international trade was left became more and more channeled between members of economic and political blocs. The second World War was in the making.

[1] J. M. Keynes, "The Policy of Government Storage of Foodstuffs and Raw Materials", *Economic Journal* (September 1938), pp. 449-460.

[2] International Studies Conference, *Peaceful Change* (International Institute of Intellectual Co-operation, Paris, 1938), p. 87.

# Part II

# Lessons from the Past

## INTRODUCTION

The purpose of Part II is to suggest lessons that can be drawn from the record of the inter-war period on the solution of international raw materials problems. In order to elucidate these problems it is necessary to raise such queries as: What exactly were the raw materials problems of the period concerned? Were these problems correctly posed? What were the proposed solutions? Were these proposals appropriate as solutions and were they actually implemented? If they were implemented, why were some measures and programmes effective and why were others ineffective? If the proposals were inappropriate as solutions, what alternatives can be suggested?

This approach will be applied successively to transitional post-war problems, covered in Chapter I, and to long-term problems dealt with in the remainder of this study. As was brought out in Part I, international raw materials problems fall into two broad categories: problems of producers and exporting countries and problems of consumers and importing countries. The two groups of problems show various interconnections but they are nevertheless distinct. For the sake of brevity we shall refer to the one group as producers' problems and to the other as consumers' problems, although these designations do not indicate the full substance to be encompassed by them.

Policies concerned with those international producers' problems that arise from retarded capacity adjustments and depressed price levels are discussed in Chapter II, those concerned with violent price fluctua-

tions in Chapter III. Chapter IV examines solutions for international consumers' problems caused by shortage of raw materials supplies and high prices, and Chapter V solutions for the difficulties caused by insufficiency of foreign purchasing power. Chapter VI is devoted to conclusions.

# CHAPTER I

## THE TRANSITION FROM WAR TO PEACE

The termination of hostilities in the autumn of 1918 confronted countries dependent on raw materials imports with two difficulties: (1) Many primary products were physically scarce either because of a world-wide deficiency of supply or because the shortage of ocean shipping and disorganized systems of inland transportation prevented large stocks from being shipped from overseas producing areas to eager markets; (2) Where the need was most urgent, in continental Europe whose devastated areas required reconstruction and worn-out capital equipment replacement and repair, foreign purchasing power was generally inadequate. A vicious circle of shortages—of food, raw materials, equipment and transport—prevented the rapid acquisition of foreign exchange through exports. Unsettled political conditions discouraged the extension of private credits. The most needy countries were thus put at a distinct disadvantage in obtaining raw materials supplies in a rising sellers' market.

As was brought out in the first chapter of Part I, international measures designed to cope with these problems were inadequate [1]. Indeed, effective international action was largely confined to the provision of foodstuffs. No large-scale programme of rehabilitation was established. Except in very limited fields and areas, the Inter-Allied Supreme Council for Supply and Relief and the Supreme Economic Council achieved little in mitigating the severe raw materials shortages of continental Europe. Only the Brussels Conference in 1920, nearly two years after the conclusion of the Armistice, considered the problems of European reconstruction in a comprehensive fashion. By then the situation had so seriously deteriorated that it was no longer susceptible of improvement by the measures proposed by the Conference.

The consequences of this failure to provide an effective international solution for a problem of international import were deplorable. The major part of continental Europe continued to be starved of primary

[1] For a more detailed discussion of the record of the transition period see: League of Nations, *Europe's Overseas Needs, 1919-1920, and How They Were Met* (Geneva, 1943), pp. 41-48; League of Nations, *The Transition from War to Peace Economy*, Report of the Delegation on Economic Depressions, Part I (Geneva, 1943), pp. 67-109.

products, rehabilitation was retarded and financial conditions became chaotic. The resulting defensive measures put the post-war development of commercial policies on the wrong path of increasing restrictionism. The protracted economic misery and financial ruin inflicted on large sections of the middle classes were to leave an unfortunate political legacy. Another result was the wide currency given to international raw materials problems as a consumers' problem.

Why was there no serious international attempt at formulating an effective plan and setting up machinery with sufficient authority to enforce it? Why, instead, was international action confined to establishing agencies that were given vague instructions and no substantial powers? Expert advice was not entirely lacking, as is evidenced by Professor Taussig's proposal for the international allocation of scarce commodities and the emphasis Messrs. Baruch and Lamont and, especially, Mr. (now Lord) Keynes placed on the crucial importance of governmental credits to European countries [1]. These were indeed the two measures worked in combination which were essential to restore economic activity in Europe. Allocation without credits would have failed to meet the needs of the more sorely stricken regions and credits without allocation would only have increased the scramble for inadequate supplies and would thus have caused prices to rise even higher than they did.

But the governments of the United States and Great Britain—the two countries enjoying the strongest financial position and the greatest command over sources of raw materials supplies and shipping—were not prepared to heed the recommendations of these experts. Two major factors seem to account for this negative attitude. One was the popular revulsion, particularly conspicuous in business groups, against the continuation of wartime controls [2]. Any effective plan for international rationing of short commodity supplies would have necessitated continued domestic controls and rationing. The other reason was the belief that free business enterprise, untrammelled by onerous restrictions, could be relied upon to restore rapidly the economic and trading conditions normal in the pre-war world. It was not sufficiently realized that the underlying conditions were unpropitious for the beneficial operation of a laissez-faire system and that reconstruction in the widest sense of that word necessitated deliberate planning and the assumption by govern-

[1] See *supra*, pp. 10-11 and 15-16

[2] Among some business groups this antagonism to controls was presumably inspired by expectations of high profits to be reaped in an unregulated sellers' market. It must be realized, on the other hand, that inflated prices for scarce commodities were, under these circumstances, an effective way of making larger supplies available to Europe. These high prices stimulated increased production and discouraged consumption in the United States.

ments of financial risks which could not reasonably have been assumed by private business.

There were several contributory reasons that impeded the formation of a concerted plan of action. President Wilson, Mr. Hoover and the majority of the Congress were averse to any arrangements that would limit the absolute sovereignty of the United States in economic affairs [1]. This attitude was reflected, for example, in the insistence that, if government credits were to be forthcoming at all, independent action by individual countries was preferable to an inter-Allied project. At the same time the American disposition to treat war debts, incurred in a common cause, like ordinary commercial debts lessened the willingness of the United Kingdom to accord credits to needy European countries. Moreover, conflicts among the Allies over such issues as the relaxation of the blockade, the treatment of ex-enemies, territorial changes and reparations rendered constructive collaboration on other matters more difficult. Finally, the very large number of insistent issues to be decided at the end of the war preoccupied the minds of policy-makers and thus prohibited as careful a focussing of attention on the raw materials question as that problem deserved.

Some of these adverse conditions were largely irremediable. Others could have been removed or overcome by timely preparation. In retrospect it is clear that effective collaboration could only have been possible had public opinion in the United States and the British Commonwealth of Nations been persuaded in advance of the need for such action in order to secure speedy economic recovery. It is clear, moreover, that to be really effective plans should have been agreed prior to the end of hostilities. Financial assistance and the allocation of scarce materials and shipping could then have been begun immediately upon the conclusion of the Armistice. Yet the absence of such preparation was in large part the excusable result of inexperience. Unlike a few far-sighted experts, policy-makers in general did not and could not have been expected to grasp the full implications of what was an unprecedented situation. That situation has recurred today in an accentuated form, and on this occasion lack of experience cannot be pleaded.

[1] This insistence on the inviolability of sovereign status was by no means confined to the United States. It is interesting to note that the establishment of relatively effective, though locally limited, transitional measures in the Peace Treaties was practicable because obligations could be imposed on defeated nations or countries that had been created by Allied fiat and thus were initially dependent on their good will. See *supra*, pp. 19-20.

# CHAPTER II

## PRODUCERS' PROBLEMS: CAPACITY ADJUSTMENTS AND DEPRESSED PRICES

The historical survey in Part I revealed how world attention shifted intermittently from the consumer to the producer of raw materials and *vice versa*. Although the issue of the political control of sources of primary products was pressed insistently in the 1930's by some powerful importing countries, the international raw materials problems of the producer gradually gained ascendancy over those of the consumer. They presented themselves immediately the first short-lived post-war boom collapsed. This collapse not only led to an all-round fall in prices, but laid bare the main problem of many primary producers—namely, an inherent weakness in the prices for their products owing to a redundant productive capacity. Throughout modern history industries have suffered from such structural maladjustment. But during the century preceding World War I, readjustment was greatly facilitated by the expansive trend of a relatively unfettered world economy. The first World War and its aftermath brought a radical change of conditions. The war itself and the ensuing reconstruction boom led to an undue expansion of many primary industries [1]. The improvement of production processes augmented not only the productivity of each unit of production but also output capacity as a whole. Some industries faced the increasing competition of substitute materials. Imbued with the rising spirit of economic nationalization and driven by the necessity of finding immediate solutions for urgent problems, many governments were ready to foster and shelter high-cost domestic industries behind a protective system of tariffs, quotas and exchange restrictions. A tendency toward chronic surpluses in many commodity markets was the consequence of these developments.

To relieve this distressing state of affairs, it would have been necessary to bring world output capacity into line with world absorption capacity at a price level profitable to the required proportion of the over-expanded industry. Such readjustment called for disinvestment and—to proceed economically—for the selective disinvestment of the

[1] See *supra*, p. 41.

least efficient producing units, no matter where they were located. But the transfer of redundant resources to other uses was rendered increasingly difficult and painful within a world economy which became more and more departmentalized and, on account of spreading rigidities, less and less adaptable to quick change. Free competition, therefore, failed to eliminate promptly the relatively inefficient and superfluous producer. Instead, it led to a bitter and protracted process of attrition. Where governments were not already inclined to reserve domestic markets to domestic industries agricultural primary producers of the owner-operator type combined to bring political pressure to bear on public authorities. Owners of large-scale capitalistic enterprises in agriculture and the extractive industries likewise formed potent organizations for the purpose of collective action.

The upshot was a multiplication of private cartels, governmental restriction schemes, protectionism and other varieties of assistance to distressed producers. All these forms of interference with free commodity markets had existed prior to the first World War. The important point is that their number and scope increased rapidly in the 1920's and, particularly, in the 1930's.

Most of the devices adopted to defend the interest of primary producers represented disconnected attempts at solving what was patently an international problem. But in various ways these expedients affected the complexion of the basic problem and some gave rise to developments which concerned raw-material-importing countries and consumers. The protection of domestic markets intensified the difficulties confronting exporting countries. Export bounties invited retaliation and cutthroat competition and were particularly hard on exporting countries that could not afford subsidies. By means of restrictive practices, national and international cartels often succeeded in raising price levels, sometimes to excessive heights. But restriction rarely provided a lasting solution. Many cartels collapsed under the impact of the Great Depression; others broke down because their price policy encouraged increased production by outsiders and further additions to world output capacity. Owing to a lack of sufficient financial integration and the great number and conflicting interests of independent producers, many primary industries proved unable to achieve voluntary association for the purpose of effective output restriction. The tin mining and the rubber plantation industries are cases in point. For most forms of agricultural production, voluntary association was clearly out of the question. Collective market intervention organized and enforced by governments frequently appeared to be the only feasible remedy. But strictly national schemes were impracticable or proved abortive where the country concerned

could not marshal a sufficient degree of monopoly power, and this was rarely the case. It is for these reasons that many private cartels and national valorization schemes in the raw materials field were eventually succeeded by intergovernmental commodity controls.

During the 1920's the distress of primary producers was not formally recognized as an international problem, but was rather regarded as the proper concern of the industries and producing countries chiefly involved. It is not surprising, therefore, that self-help was organized by such industries and exporting countries. Intergovernmental restriction schemes were a form of co-ordinated self-help. Their purpose was to relieve the industry concerned and this purpose was pursued in disregard of the general problems of the world economy.

The World Economic Conference of 1927 took cognizance of the problem of primary producers whose markets were depressed by chronic surpluses. It noted the undesirable consequences of waxing protectionism. In its Final Report it conceded that the phenomenon of international industrial agreements arises "from economic necessities" and that, subject to certain conditions, these agreements can secure "a more methodical organization of production" and "act as a check on uneconomic competition". On the other hand the report drew attention to the possible disadvantages of these schemes, such as their tendency to check technical progress, and stated that "they cannot be regarded as a form of organization which could by itself alone remove the causes of the trouble from which the economic life of the world and particularly of Europe is suffering". But—beyond urging maximum liberation of international trade and suggesting means by which this might be achieved —the Conference did not make proposals for the removal of the troubles which caused control schemes to be adopted.

When the World Monetary and Economic Conference was convened in 1933, the plight of primary producers had grown to an extent that compelled statesmen to regard it as the foremost international raw materials problem. The need for restoring the purchasing power of primary producers was fairly recognized. The general drift of specific proposals was now in the direction of international planning and, especially, of the planned readjustment of supply and demand in various commodity markets. International restriction schemes were encouraged and the conditions of their success clearly outlined [1]. But owing to the pressing urgency of the difficulties which governments and the whole world faced, emphasis was laid rather on the need for reducing supply than for stimulating demand. Indeed there was no agreed body of doctrine about the manner in which demand could be stimulated.

[1] *Supra*, pp. 52-53.

In 1937 the Economic Committee of the League of Nations reiterated this sweeping approval of international regulation schemes and recommended that governments consider assuming the direction of private cartel agreements. "Schemes of this kind", the Report announced, "in so far as they restore the purchasing power of communities which are normally large purchasers of imported goods and thus lead to a marked increase in their imports, are to be welcomed as a valuable means of restoring international trade". The Committee was anxious to allay the apprehension of importing countries over the high price levels engineered by some control bodies. Otherwise, it found, criticisms of regulation plans "were general in character and were based on the general contention that any restriction of production must be wrong". In retrospect this attitude seems to have been a retrogression from that adopted in 1927 which favoured a policy of expansion rather than of contraction and control.

It is not contended, of course, that effective international action toward a vastly increased world flow of goods, services and capital would have completely obviated specific remedies for the relief of primary industries suffering from chronic surpluses of supply. There are no grounds for assuming that demand would have increased so greatly and so generally that no surplus capacity remained, that no raw product would have been produced in excess. It was therefore necessary to face the problem of specific surpluses and to endeavour to eliminate the less efficient producers. But an expansive world economy and trade should have solved the problem of many raw materials industries, reduced the difficulties confronting all others and thus facilitated the discovery and application of specific solutions.

Regarding the specific remedies of cartels and intergovernmental commodity arrangements, the World Economic Conference of 1927 was still critical. It pointed out serious flaws in these solutions. But it did not go beyond the expression of general recommendations. The international conferences of the 1930's largely circumvented the real problem of private cartels and accepted international regulation schemes as beneficial in principle and practice except for certain abuses that produced protests in importing countries [1]. The reason for this change in attitude was of course that in 1927 trade was still increasing and a further expansion was expected. It was still hoped that a radical reduction of tariffs and other obstructions to world trade might be accomplished. In 1933, however, the world was at the bottom of a depression and quite uncertain whether the depression would become more or less intense.

[1] See below, pp. 95-96.

Each country tried by defensive measures to protect itself; none dared to venture on the high seas of commercial liberty.

Whether regulation schemes really constituted a more than superficial solution for the problem of chronic surpluses was not in these circumstances considered to be the immediate question. The immediate question in the early 1930's was to prevent prices from falling still lower. The problem of chronic excess capacity of a limited number of commodities was smothered in that of the immediate excess production of almost all raw materials and many foodstuffs. By 1937, international trade had become disintegrated and, though various attempts were made to revive it through international action, there was little confidence that unless and until there was a radical improvement in the political atmosphere any world-wide multilateral trading system could be restored.

But the record of existing agreements demonstrated that excess output capacity—which was the enduring problem—was generally left intact. Control schemes simply restricted output and exports and thus prevented the glutting of markets and a consequent depression of commodity prices. This solution benefited all producers, at least in the short run. For even the low-cost producers were spared the protracted period of attrition and the disastrously low prices that would have prevailed in the absence of regulation. But intergovernmental commodity control was subject to serious drawbacks. Regulation agreements which did not rest on a sufficient degree of monopoly power sooner or later failed, as high prices encouraged increased production by outsiders and newcomers. Even "successful" schemes had such undesirable results as the following: (1) trade in the commodity was restricted; (2) the development of new low-cost capacity was retarded, if not rendered impossible, wherever the regulation scheme possessed a high degree of monopoly power; (3) the existence of redundant high-cost producing units was perpetuated; (4) output restriction was applied equally to low-cost and high-cost producers. Continued restriction necessitated by (3) resulted in a higher average cost level in industries characterized by high fixed costs. Because of (4) the cost level even of the most efficient producers was raised.

Such disadvantages rightly concerned importing countries and consumers, as is brought out in Chapter IV, below, and the restrictive schemes created a general barrier to economic progress [1] and compromised the long-run prospects of those primary industries that faced the threat of substitute materials. What was required, therefore, in addition

[1] The full effect of this barrier must be appraised by contemplating the cumulative effects of *all* restriction schemes.

to effective steps in the direction of increased trade and consumption, was an attempt at devising temporary regulation plans providing for (1) the gradual contraction of output capacity by the planned disinvestment of extra-marginal producing units, and (2) the progressive replacement of less efficient by more efficient producers.

Accordingly, the essence of restoring healthy conditions to a depressed industry lies in the adjustment of its structure, and the only constructive purpose of restriction is to make this adjustment proceed in an orderly fashion and without plunging the entire industry into a prolonged period of acute distress. As far as possible, productive factors employed in excess capacity units must be assisted in finding alternative employment. In so far as this shift of resources to other employment proves impossible, the less efficient or less well-placed producers must either face the brutal consequences of mal-investment or receive such partial compensation as may be forthcoming on a sectional, national or international basis [1]. Once capacity has been adapted to demand by one means or another the need for a more or less permanent restriction scheme obviously disappears.

Yet, to state the essential and legitimate purpose of such regulative plans is to state the difficulties to be met in their application. Industrial reorganization along these lines would require governments willing and able to eliminate redundant high-cost producers. Where different degrees of capacity adjustment are called for in different countries, owing to substantial differences in average production costs, some arrangement—perhaps of international compensation—would be required to secure the co-operation of high-cost producing countries. Moreover, a plan which aimed at the transfer of resources, and not the simple elimination of the redundant, could not be confined to the industry suffering from excess capacity. Especially in the case of producing countries dependent upon the export of a few raw materials, readjustment plans would have to comprise the shifting of resources to and additional investment in other branches of production. Finally, the danger that the removal of temporary restrictions is indefinitely postponed must be forestalled. Analogous cases of restrictive devices, planned to be temporary but scarcely ever lifted, such as emergency and infant-industry tariffs, demonstrate how serious this danger is.

The application of such plans was obviously impracticable during the inter-war period. Few governments were in a position to dictate to low-cost producers or even to resist their pressure for relief by restriction. In a world rent by political animosities or wrestling with one of

[1] If the surviving portion of the industry is burdened with the compensation, the result is, of course, a permanent increase in its overhead costs unless compensation is given in the form of ordinary shares rather than in cash or bonds.

the most serious depressions in history, no country was in the mood either to offer compensation to others or to sacrifice its high-cost producers for the edification primarily of other countries. These facts indeed constitute the core of the difficulty of evolving an effective and sound policy to deal with excess capacity.

The matter of timing is of special import. When business is active the fact of excess productive capacity, even if patent, is not fully appreciated. It is believed that with a little further expansion in demand it may soon disappear altogether, or alternatively that only a limited number of high-cost producers are seriously and immediately affected by it. Nothing is done. When business wanes and prices fall then the true dimensions of the problem become fully apparent, but the economic and more especially the political conditions become unfavourable to the adoption of the type of policy that is required. The problem of excess capacity is overlaid by that of cyclical excess supply. It is these factors rather than any lack of understanding of the issues at stake that prevented effective policies being pursued, though they did, it is true, colour the views held and expressed by policy makers and those responsible for advising on policy. These factors are likely to play just the same rôle in the future as they did in the past unless governments succeed in the application of policies designed to hold depressions in check and especially to prevent the prices of raw materials from slumping when a recession in business makes itself felt. It follows, therefore, that the success of policies for coping with the special problem of excess capacity is likely to prove dependent on the success of anti-depression policies in general.

These more general policies, moreover, if successful, will by themselves reduce the magnitude of the excess capacity problem, for with a higher average demand over the years more capacity will be required. But there is no reason for believing that they will make that problem disappear altogether, and if they do not, imagination enough to deal with it when it is not proving to be an immediately dangerous festering sore will be required, as will courage in the formulation of specific plans.

# CHAPTER III

## PRODUCERS' PROBLEMS: BUSINESS CYCLE AND UNSTABLE PRICES

As we have indicated, depressed prices resulting from excess production were by no means the only trouble afflicting many primary producers during the inter-war period. Equally important were the uncertainty and variability of income caused by short- and medium-term fluctuations of prices [1]. In agriculture, cycles of good and bad crops or vagaries of weather often occasion sharp fluctuations in supply. Owing to the irresponsiveness of the demand for many staple foods, these untoward circumstances lead to abrupt changes in prices. The consumption of industrial raw materials, the demand for which varies widely as a result of changes in national income, exhibits extreme fluctuations over the period of the business cycle.

In some primary industries, producers and producing countries had attempted to solve the problem by inaugurating valorization plans. But it was not until the 1930's, when the world had become acutely depression-conscious, that the importance of the price variability of crude products as a factor accentuating booms and depressions was adequately emphasized. In 1937, the League of Nations Committee for the Study of the Problem of Raw Materials stressed the urgency of combating undue fluctuations of prices. Two distinct methods of approach were singled out. Price-stabilizing adjustment of supply to market requirements could be achieved by planned variations in the rate of output and exports. This was the method of the international regulation agreements, the mechanism of which was discussed in Chapter II of this Part. The second approach aimed at the establishment of buffer stocks designed to stabilize prices by absorbing excess and supplementing short supplies through purchase and sale operations in the market.

The method of adjusting output and/or exports to the requirements of the market was in fact pursued by several international regulation schemes. The wheat agreement of 1933 aimed at "a rise and stabilization of prices" and the tin scheme of 1931 at "preventing rapid and

[1] See League of Nations, *Economic Stability in the Post-War World*, Report of the Delegation on Economic Depressions, Part II (Geneva, 1945), pp. 79-84.

severe oscillations of price". The rubber agreement of 1934 and the sugar scheme of 1937 aspired to maintain an "orderly" relationship between supply and demand. Experience with the buffer stock method was confined to a few isolated schemes such as the tin buffer stocks of 1931, 1934 and 1938. In fact, the buffer stock expedient, a novel idea, was to find strong and widespread support only during the years of World War II.

There was no effective international attempt, in the 1930's, to apply fundamental and comprehensive remedies to the problem of unstable raw materials prices, just as there had been no such attempt regarding the problem of chronic surpluses. The supply of most primary products is relatively unresponsive to short-term price changes: declining prices often do not induce producers to curtail supplies and, in any case, there is usually a considerable time lag before alterations in output schedules become reflected in changed supplies to the market. This situation can, in theory at any rate, be tempered by buffer stock operations. Wide fluctuations of the prices of many industrial raw materials, however, arise primarily on the demand side. The demand for such products as fibres, rubber and most metals fluctuates sharply with the general trend of business conditions. What are required therefore are general contra-cyclical policies designed to influence business conditions as a whole, rather than a multiplicity of measures applied to individual commodity markets.

But the world which had succumbed to the germ of economic nationalism as soon as its vitality was lowered by the depression was, as we have seen, in no condition to adopt courageous and constructive policies of this character. Moreover, there was at that date no agreed body of doctrine about the policies by which the depression might have been countered. It was inevitable, therefore, that search should be made for specific remedies which in practice meant some tinkering with the principles on which restrictive agreements should be based.

Restrictive commodity agreements had been unsuccessful in moderating the wide range of price fluctuations characteristic of many raw materials. The wheat agreement of 1931 was abortive. The tin and rubber regulation schemes were successful in raising prices but failed to dampen extreme oscillations of prices. This inability to prevent erratic and marked price changes is not too difficult to explain. As already remarked, a rather lengthy period of supply rigidity usually prevents changes in production rates from becoming immediately reflected in changed market supplies. The application of output and export controls inevitably introduces a new element of rigidity. For practical reasons of control and business administration, rates of permissible production

or shipments cannot be altered too frequently or irregularly. In these circumstances the successful combating of sharp price fluctuations through such controls depended on the ability of control bodies to forecast market trends. No reliable method of making such forecasts existed.

The report of the World Monetary and Economic Conference of 1933, therefore, quite rightly observed that regulation schemes must be "flexible" to permit of quick adaptations of supply to changing market requirements [1]. The Conference did not draw the conclusion, however, that such flexibility can be attained only by direct and instantaneous intervention in the market, that is, by buffer stocks. It also neglected to enquire whether a mechanism, designed chiefly to keep prices at a level satisfactory to producers, can effectively confine price changes to a moderate range. The tin and rubber agreements, both dominated by considerations of producers' interests, were more concerned with the prevention of price falls than with the insurance of a stable price level. As long as errors in forecasting were inevitable, the control bodies were disposed to err on the "safe" side by keeping supply rates as low as possible. This policy occasioned abrupt price rises when demand rose suddenly and—since such advances in price could not be sustained—extreme price fluctuations occurred.

The League of Nations Committee on raw materials problems reported its feeling, in 1937, that prices of primary products "would fluctuate more violently without than with regulation", but did not indicate the facts that caused this feeling. The Committee added, however, that the remedy for extreme price gyrations "should be sought in the improvement of the regulation schemes". One way of improvement, the Committee reported, was the creation of buffer stocks operated either by producers alone or by producers in co-operation with major consumers. A discussion by two Committee members on the operation of buffer stocks was appended to the main body of the Report [2].

But the Committee did not analyze in detail the conditions under which a successful buffer stock scheme must operate. It did not pose such important questions as the following: (1) What range of permissible price fluctuations must be allowed for different types of raw commodities in order to facilitate successful operation of a buffer stock? (2) How can a buffer stock committee reliably predict the long-term pivotal price that will produce equilibrium between aggregate output capacity and market requirements? (3) What measures must be taken and what institutions established in order to ensure that the purchase and sales policy of the buffer stock will be consistent with the maintenance of the

[1] See *supra*, p. 53.
[2] See *supra*, pp. 62-63.

long-run equilibrium price? (4) In what circumstances and for which commodities is the operation of a successful buffer stock possible in the absence of a restriction plan[1]? (5) Is an international agency needed to supervise the operation of various buffer stocks and co-ordinate their contra-cyclical policies?

But these are the questions on the answers to which a solution of the price variability is likely to depend. They have been discussed recently in the report of the League's Delegation on Economic Depressions entitled *Economic Stability in the Post-War World*[2].

As stated at the end of the last chapter, if through buffer stocks and other contra-cyclical policies these wide price variations which we have been discussing can be damped down, the road should be open for the elaboration of plans to deal with what is in fact a specific rather than a general question, namely, excess capacity for the production of a specific commodity.

[1] As an instrument of price stabilization a buffer stock is, in theory, superior to a restriction scheme. Under the former, the output rate of and employment in the industry will tend to be relatively stable. Under the latter they will be more unstable and, in addition, a considerable margin of reserve capacity must be maintained in order to meet the peak demand of occasional boom periods. The maintenance of this reserve capacity is, of course, a cost-raising encumbrance on the industry.

[2] See pp. 265-71.

## CHAPTER IV

## CONSUMERS' PROBLEMS: SCARCE SUPPLIES AND HIGH PRICES

From the consumer's side, the problem of raw materials is always one of shortage. This shortage has different causes and aspects. The problem may be one of physical scarcity. Shortages may arise when the conduct of war necessitates large-scale transfers of productive resources or when output expansion fails to keep pace with an abrupt increase of demand caused by a sudden business boom or when the extended use of a commodity requires additional productive facilities. In any case scarcities tend to entail a more or less pronounced rise in prices.

A complete or relative shortage of particular products can also be caused by artificial means such as export embargoes, export taxes and output and marketing restrictions. By cutting off or reducing supplies to the market and thus generating an increase in prices, or by raising prices directly through price-fixing and the imposition of export taxes, the commodity concerned is made more or less scarce to the consumer. Yet consumers in particular importing countries may suffer shortages even when a raw material is abundant and prices are low. Their problem is not one of artificial scarcity of supply but one of lacking adequate foreign purchasing power.

The present chapter will deal with the issues of the natural or artificial shortage of primary products; Chapter V, with shortage problems springing from insufficient power to purchase.

### *1. The Problem of Physical Shortages.*

Wartime scarcities of raw materials inevitably lead to reduced consumption—at least reduced civilian consumption—and may necessitate rationing of short supplies on a national or inter-allied scale. Such shortages often outlast hostilities and remain acute during an ensuing transition period while transportation systems are being reorganized and war economies reconverted to production for peacetime markets. The transitional raw materials problems at the end of the first World War were discussed in Chapter I of this Part.

The problem of physical scarcity arising from a sudden and vigorous expansion of the volume demanded of certain raw products owing to

cyclical and secular factors did not present particular difficulties during the boom of the late 1920's because most important raw materials were already in over-supply. The problem was not, therefore, made subject to international enquiry. In 1937, however, the League of Nations Committee for the Study of the Problem of Raw Materials had occasion to approach the question in connection with its study of international regulation schemes. The Committee reported that regulation plans are incapable of ensuring stable prices because of the delay inevitably occurring "between the decision to increase production and the resultant increase in production". The Committee discussed buffer stock schemes as a possible means of supplementing supplies during the period of supply rigidity. As pointed out in the previous chapter, the Committee was unable, however, to arrive at a definitive opinion, though it felt that the idea deserved "the most serious consideration of all bodies controlling regulation schemes".

Raw materials shortages appearing during a vigorous upswing of the business cycle can, in theory, be alleviated by international action. Contra-cyclical policies, internationally co-ordinated, would seem to afford the most comprehensive line of approach and, properly directed, buffer stocks could assist in the prevention of temporary supply shortages. As we have seen, however, the time was not ripe in the 1930's for such programmes: knowledge of causal relationships and suitable techniques was incomplete and insufficiently diffused and the will to co-operate on such comprehensive plans was lacking [1].

Shortages may arise not only on account of a cyclical upswing in demand but also because of a sharp secular increase in the demand for a product. This latter phenomenon did not become the subject of international discussion. Such scarcities are indeed often unavoidable because an expansion of productive capacity requires as a rule a considerable period of time, especially where large investments in capital equipment are necessary. International allocation of temporarily scarce supplies could moderate ensuing price rises; but to adopt a system of international rationing in peacetime obviously presents serious difficulties in practice.

Whether the shortage is due to cyclical or to secular causes, three means for checking or preventing a consequential price rise present themselves: (a) the prior accumulation of stocks; (b) the acceleration of the expansion of productive capacity; (c) rationing.

The first means we have discussed in Chapter III of Part II. It should, if competently carried out, go far to meet the risks of cyclical shortages. If the shortage is due to secular tendencies, it is always possible that the

[1] See *supra*, p. 82.

buffer stock pool may run dry. But the pool will have afforded a breathing space during which productive capacity may have been expanded. If advantage has not been taken of this breathing space, then the need for adopting special measures to accelerate such expansion may become acute. The type of international aid that might be afforded will vary from commodity to commodity. Foreign capital or foreign equipment and technical skills may be needed, either directly for the exploitation of some raw material deposit or, for instance, for providing transport facilities so as to bring productive areas within an economic distance of ports. On this point no generalization is possible, save that the more efficient the machinery for international collaboration, the more intimate international economic relations, the greater will be the probability of productive capacity being expanded rapidly and the less will be the probable duration of high prices.

Rationing, like buffer stock operations, may prevent a run-away rise in prices and at the same time afford a breathing space for expanding productive capacity. But in normal times it is open to the serious objection that it is almost impossible to find any basis for rationing which is not arbitrary and liable to give rise to ill feeling. Even if such co-operation were practicable, it would scarcely yield adequate measures before the situation became one of acute shortage.

Concerted study of the problem involved as well as the prevention of run-away prices would not only safeguard consumers' interests; it might also have the salutary effect of discouraging excessive expansion of productive capacity. In the absence of precise information on the approximate deficiency of output facilities and current plans for additional investment, the individual action of numerous producers in response to high prices has often led to over-compensation in the aggregate and from a position of insufficient capacity industries have passed quickly into one of excess capacity.

*2. Export Prohibitions and Export Taxes.*

After the end of World War I there was a widespread disposition to regard "the struggle for raw materials" and the existence of export duties or controls and of discriminatory tariffs as decisive causes of war [1]. The French and Italian peace delegations, indeed, suggested that all industrial raw materials be freed from both import and export duties. But no agreement could be reached on proposals as radical as these. The eventual upshot was a weak and vague clause on the necessity of "equitable commerce" in the Covenant of the newly-created League of Nations [2].

[1] See *supra*, pp. 21-22.
[2] See *supra*, p. 24.

Restrictions on the export of scarce primary products were common during the post-Armistice period. In October 1920, M. Tittoni, speaking before the Assembly of the League of Nations, deplored the widespread prevalence of monopoly abuses, export taxes, preferential treatment and dual-price systems practised by some exporting countries. Most of these restrictions were discarded in the wake of the depression of 1921. What remained of them was periodically made subject to international investigation and proposals were put forward for their modification or removal.

The outcome was in no case unqualified agreement on the elimination of the restrictive measures imposed by exporting countries. It was generally conceded that states have, in principle, "the incontestable right" to dispose freely of their natural resources [1]. In a world of sovereign nation states this right can indeed not be questioned. The relevant question relates to limitations on the exercise of this right.

Outright export embargoes, which were exceedingly rare, were condemned subject to various reservations. The Genoa Conference of 1922 recognized that countries have the right to impose temporary restrictions "to meet exceptional situations" [2]. The Convention on Import and Export Prohibitions and Restrictions of 1927 and the supplementary agreement of 1928 contained reservations regarding the right to impose embargoes and restrictions for reasons of conservation and generally "for the purpose of protecting, in extraordinary and abnormal circumstances, the vital interests of the country" [3]. In the event of short crops, temporary export prohibitions on foodstuffs were found unobjectionable by the League Committee for the Study of the Problem of Raw Materials in 1937 [4]. This Committee also stated that the export of certain industrial raw materials, such as scrap iron, might be legitimately prohibited because, in principle, "a country is entitled to a first call on its own resources". The Committee objected to embargoes on the export of seeds and plants for the purpose of preserving a national monopoly of production but did not feel so opposed when restriction was applied by international commodity control schemes. Regarding prohibitions on the export of primary products for the purpose of protecting a domestic or metropolitan processing industry, the Committee felt that, in principle, these could neither be justified nor condemned. The Report concluded that, in general, export prohibitions can be justified when of a defensive nature, but were obnoxious

[1] See *supra*, p. 34.
[2] See *supra*, p. 36.
[3] League of Nations, *Commercial Policy in the Interwar Period*, p. 34.
[4] See *supra*, p. 59.

when designed to maintain monopolies, to protect uneconomic industries, or to "apply pressure to other countries". Finally, the Economic Committee of the League laid down another general principle to which it suggested governments should conform "as far as possible": export prohibitions should not be applied except in pursuance of international regulation schemes [1].

Similar distinctions were made between justifiable and unjustifiable export taxes. International committees and conferences were consistently opposed to excessive and discriminatory export duties [2]. Subject to this qualification, however, it was recognized that countries have a right to levy export taxes for revenue or statistical purposes. In economically undeveloped countries such levies are the most convenient means for collecting revenue. Reporting in 1937 the Committee for the Study of the Problem of Raw Materials also approved of the generally small duties imposed on certain materials for the purpose of establishing a fund for the improvement of the industries concerned with their production. Export taxes utilized as a restrictive method in international regulation schemes were to be judged as part of the entire control arrangement. The case of export levies designed to promote a domestic or metropolitan processing industry was obviously identical with that of export prohibitions imposed for that purpose.

As long as national sovereignty is fully preserved and considered to include matters of economic import, it would seem necessary to concede that a country should have a "first call" on its own resources, though this right may be limited by international negotiation and regulation. The international agreements on the export of hides, skins and bones, concluded in 1928 and 1929, afford an example of export restrictions being jointly renounced for definite groups of materials.

It is evidently difficult, if not impossible, to lay down general rules clearly distinguishing between admissible and objectionable export embargoes and export taxes. Different applications of these restrictive devices must be appraised separately. Governments are liable to impose them in two opposed circumstances: when their position is exceptionally weak, for instance after a war when they wish to conserve such short supplies as they may have, and when their position is exceptionally strong, for instance when they believe that by so doing they can extract from others a higher monopoly price. Export embargoes imposed during a period of general shortage are likely to prolong that shortage by interrupting trade, and to the extent that they do so are

[1] See *supra*, p. 64.
[2] See *supra*, pp. 36, 46, 60 and 64.

objectionable. What is required in such circumstances is not doctrinal recommendations, but constructive measures for expediting all round reconstruction.

Restrictions may also be imposed for the sake of conserving some raw material the supply of which is gradually being depleted, and it is difficult to deny the right of a country to determine itself the rate at which a wasting asset should be used. Yet it is possible that conservation is not always the real object of restrictions thus justified, and it is conceivable that genuine conservation measures might lead to international friction if they should concern waning deposits of vitally important minerals.

Restrictions imposed, on the other hand, to exploit a monopolistic position are always open to objection. But such monopolies are rare and with the progress of scientific research are becoming constantly rarer. It is difficult to devise any means for dealing with them when they occur save the normal processes of commercial bargaining and treaty making.

Objection can also rightly be raised when export prohibitions or duties discriminate between different importing countries. Apart from cases dictated by political considerations, such discriminatory practices may be applied to colonial exports in order to grant preferential treatment to the metropolitan country. The abandonment of this kind of discrimination might be made subject to international agreement. Similarly, export embargoes or export taxes designed to protect a domestic or metropolitan processing industry might be susceptible to international renunciation on condition that importing countries do not, for their part, restrict imports of the processed commodity for the purpose of protecting a processing industry of their own.

On the other hand, it is scarcely possible to formulate a criterion by which export levies for revenue purposes can be identified as excessive. Such duties have in fact rarely been excessive in recent decades. An exporting country must enjoy a high degree of monopoly power in order to shift the tax burden on the importing countries. When the producing industry has to bear it, excessive duties would undermine its ability to compete in the world market. Moreover, if the demand for the product concerned is responsive to price changes, optimum receipts should be obtained by relatively low duties.

The record of the inter-war period regarding both export prohibitions and export duties is not clear-cut. The principles elaborated were often ambiguous; the Convention on Import and Export Prohibitions and Restrictions of 1927 failed to receive a sufficient number of ratifications, and the recommendations of the Economic Committee of the

League of Nations, enunciated in 1937, did not receive adequate support to allow them to constitute the basis for an international convention. It is possible, however, that an effective convention confined to export embargoes and/or export duties might have been practicable. If so, this would speak against attempts to formulate "omnibus" conventions which are liable to stir up a great deal of opposition on diverse grounds. Nevertheless, it would be difficult to deny that the discussion of the issues involved did assist in the gradual demobilization of export prohibitions and duties which occurred during the 1920's and early 1930's.

### 3. *Monopolies, Cartels and Regulation Agreements.*

Natural monopolies, private producers' cartels and intergovernmental control schemes are patently liable to restrict raw materials supplies to the consumer. Their restrictive effects, indeed, on importing countries and consumers may be just as direct and, in fact, are more widespread than the effects emanating from the imposition of export embargoes or export taxes.

#### (a) *Natural Monopolies.*

International programmes for the solution of raw materials problems were little concerned with natural monopolies exploited by individual governments. Very few monopolies of this sort existed during the inter-war period and, as the League Committee for the Study of the Problem of Raw Materials observed in 1937, those that existed did neither "constitute real obstacles to the circulation of raw materials" nor give rise to complaints [1].

#### (b) *Cartels.*

In contrast, the marketing of many raw materials and semi-manufactures was subject to a greater or less measure of control by private national or international cartels. Cartellization was particularly frequent in the production and marketing of minerals and refined metals. To name such examples as potash, nitrates, sulphur, copper, zinc, lead, aluminium and steel indicates the extent and importance of international cartel arrangements. This representative list would be still more impressive if domestic cartels were included. This study, however, is primarily concerned with international business arrangements since few domestic cartels possess a degree of monopoly power high enough to dominate the international markets of raw materials.

[1] See *supra*, p. 61. See also the similar conclusion of the Provisional Economic and Financial Committee of the League of Nations in 1921, *supra*, p. 35.

By fixing prices, establishing production and/or export quotas or allocating export markets, cartels tend to raise prices over what they would be in the absence of control. To be sure, cartels are free to lower prices and increase quotas. But, since cartels are operated by producers and the primary interest of producers lies in the maximization of profits, control policy generally tends to result in relatively high prices. For this reason the League of Nations Committee on the Study of the Problem of Raw Materials devoted attention to the problem of cartels in its final report.

This report drew a clear distinction between cartels and intergovernmental regulation plans. The Committee stated, however, that it "did not feel that the information in its possession is sufficient to enable it to express a decided opinion about" private cartels, though it felt that the reasons for advocating consumers' representation in the operation of intergovernmental control schemes "are no less cogent in the case of private schemes". Indeed, the report recommended that governments seriously consider the possibility of transforming private cartels into intergovernmental arrangements or at least of supervising the policy of private cartels [1]. In the same year the Economic Committee of the League of Nations reiterated the recommendation that "so far as circumstances permit" governments should use their influence toward the protection of consumers' interests against the policy of private cartels [2].

The deliberations of these two committees were certainly first steps in the right direction but did not exhaust the possibilities of examining the extent of the problem and of suggesting effective remedial action. An objective enquiry would be bound to establish the fact that international private cartels often do exploit the consumer in the pursuit of high-price policies. There are several possible approaches to the problem of protecting the consumer from such practices.

One would be an international convention by which the signatory governments bound themselves to prohibit the formation and operation of private international cartels. This, if successfully applied, would obviously constitute a complete solution of the consumers' problem. But such a proposal would be extremely difficult to enforce, and though it might find favour in the United States, it would most likely be opposed by the governments of countries that have for a long period of time tolerated or supported private cartels or participated in them.

The transformation of private international cartels into intergov-

[1] See *supra*, p. 62.
[2] See *supra*, pp. 64-65.

ernmental regulation agreements, as suggested by the aforementioned committees, constitutes another possible solution. Such a step, it is argued, would not only afford scope for the restraining influence of the governments of exporting countries; it would also permit the representation of importing countries. In the inter-war period, however, the fundamental orientation of most intergovernmental commodity agreements did not substantially differ from that of the cartels, and though consumers' interests were represented in some, they wielded no formal power over control policies. The effective representation of the consumers' interest, furthermore, presents very difficult problems [1]. From the point of view of the consumers, therefore, the evolution of intergovernmental from private regulation schemes will not necessarily represent progress. If it does not, private cartel arrangements may be preferable, for they have at least the mitigating feature of being less stable and enduring than intergovernmental agreements. Nevertheless, the proposal may be worthy of further exploration provided it is possible to develop international commodity agreements in a direction affording real protection to consumers' interests.

Alternatively, governments might agree to provide for the compulsory supervision of cartel policies by public representatives. To be effective, supervision would have to be reinforced by veto power over restrictive policies and by adequate penalties for evasion. This arrangement would have the advantage over the preceding proposal of not enhancing the durability of cartels. But it would only be effective when governments were themselves genuinely anxious to prevent restrictive practices. Frequently in the past governments have favoured international cartel arrangements and, were government control carried out by each government acting independently even though under a treaty obligation to act, it is doubtful whether such action would in all cases be so thorough as both to prevent restrictive practices and to create a conviction in the minds of the consumers that they were being prevented.

International supervision would be likely, therefore, to be more efficacious from this point of view. It might be accomplished by a convention setting up an international cartel commission for the purpose of examining cartel policies and proposing the abandonment of objectionable practices. Being less susceptible to pressure from organized producers' groups, such an institution should represent the general public interest better than would individual governments acting independently. The commission would, however, have to depend on the

[1] See below, pp. 95-97.

participating governments for the enforcement of its decisions as well as for the collection of information. This is a serious qualification.

But police measures of this sort, whether nationally or internationally organized, are necessarily negative and *ex post facto*. They may stop the continuation of an injustice when it exists, lubricate a friction once heat has been generated; they are much less likely to prevent the creation of injustice or friction altogether. What is required to accomplish that result is the effective representation of consumers' interests. Officials cannot foresee what possible effects a proposed cartel scheme will entail. Collaboration in the formulation of policy, not the barring or reversal of policies once formulated, is therefore necessary.

Such representation of consumer interests, however, is in no way incompatible with the existence of an international commission of the type just mentioned and the one might in some ways usefully supplement the other. In any case some form of international commission to which appeal might be made when it is felt that unduly restrictive or discriminatory policies are being pursued would afford a useful opportunity for the ventilation of grievances and the institution of enquiries.

But more than this is possible. We will consider the supplementary measures which might be taken in the following section dealing with intergovernmental commodity controls. For many of the measures suggested for such controls could be applied as such or in a modified form to private cartels.

*c) Intergovernmental Commodity Controls.*

The possible injury to consumers arising from the restrictive measures of intergovernmental regulation agreements is neither in theory nor in practice different from possible exploitation by private cartels. Presumably because governments can be held to account for the administration of international commodity controls and because these arrangements became widely recommended as a remedy for certain producers' problems [1], the protection of consumer interests against control abuses was recognized as an important international problem as early as the late 1920's. It was perhaps the experience of rubber consumers under the Stevenson Plan in 1925–26 which more than anything else demonstrated their vulnerability in relation to restriction schemes [2].

The Final Report of the World Economic Conference of 1927 warned that such agreements should not lead to an artificial rise in prices which would injure consumers [3]. The London Monetary and Economic

[1] See *supra*, pp. 52 and 61-62.
[2] See *supra*, p. 45.
[3] See *supra*, p. 46.

Conference of 1933 affirmed that commodity agreements should be "fair to all parties, both producers and consumers", and several delegations strongly emphasized the necessity of not prejudicing the future of the consuming countries, "in particular those which lack raw materials"[1]. In 1937 the League Committee for the Study of the Problem of Raw Materials admitted that the prices of some regulated commodities "have risen to unreasonable levels within a recent period" and stressed the need for giving consuming countries "every assurance that the schemes will be operated in a reasonable manner"[2]. The Economic Committee of the League of Nations also urged in 1937 that international regulation schemes should be so administered as "to provide consumers with adequate supplies" and "to prevent, so far as possible, the price of the regulated material from rising to an excessive height"[3].

The record of past intergovernmental regulation schemes indeed reveals that the representatives of producers, when dominating the control machinery, find it difficult to resist the temptation of raising prices or of following a supply policy so tight that a sudden increase in the volume of demand makes an upspurt of prices unavoidable[4]. Unilateral action by individual importing countries affords no reliable defence against these practices. The United States learned that lesson in its campaign against the Stevenson scheme[5]. The remedy must be international and worked out in collaboration with the governments of exporting countries.

The four international committees and conferences referred to above considered the following means of preventing the growth of abuses: (a) provision for maximum publicity on the operation of agreements; (b) reliance on the governments of exporting countries for considering the interests "of the world at large"; (c) improvement of agreements with a view to rendering supply changes more flexible, possibly by the establishment of a buffer stock formed by producers' and consumers' interests; (d) establishment of agreements "with the willing co-operation of consuming interests in importing countries"; (e) representation of the consumer interests in the operation of regulation plans, either in an advisory capacity or as members of the managing body; and (f) es-

[1] See *supra*, p. 53.
[2] League of Nations, *Report of the Committee for the Study of the Problem of Raw Materials* (Geneva, 1937), p. 19.
[3] See *supra*, p. 64.
[4] See *supra*, p. 83.
[5] In the late 1930's, the United States Government wielded considerable influence on the policies of the international rubber and tin committees. But it is possible that British and Dutch readiness to grant such influence to the largest importing country sprang from the desire of these countries to gain American good will in a period of rapidly mounting political crisis.

tablishment of a "special judicial régime and a system of supervision over agreements".

Not all of these proposals are equally practicable or equally promising. The provision for full publicity on control policies is quite feasible, but could hardly be relied upon alone to afford effective protection of consumers' interests. Nor can governments of exporting countries be depended upon to restrain the excessive demands of producers' groups. In most countries governments are susceptible to the pressure of organized producers and often depend on these producers for technical advice.

Enhanced flexibility of supply should be helpful in meeting abrupt increases in demand. Obversely, if provision is made for the immediate adjustment of supply to a sudden contraction of demand, producers should be less insistent on keeping production and export quotas as small as possible. Buffer stocks are indeed the only means of effectively permitting such elasticity of supply. Yet, as the experience with the tin buffer stock proves, not every kind of buffer stock will accomplish this purpose. The stock must be relatively large and it must be so operated that prompt releases as well as purchases are made when the market situation so demands. If undertaken co-operatively by the governments of exporting and importing countries, it should prove possible to afford it sufficient financial strength to create confidence that stable prices would be assured.

The other proposals reduce themselves in fact to two: first, that in some form an opportunity for the expression of the consumers' interests will be afforded on the occasion of the creation, or in the course of the administration, of each separate agreement, and secondly, that there should be an over-all body of a judicial and supervisory character. The first of these proposals would cover very varying degrees of opportunity for the expression of the consumers' point of view.

International commodity agreements which provide for consumers' representatives in an advisory capacity only may in some instances be able to protect consumer interests. But they cannot be relied upon to do so. The history of the international tin and rubber committees reveals an almost constant discrepancy between the consumption forecasts of the committee members and those of the advisory panel. As long as the latter have no power over control decisions their views cannot be expected to be sufficiently reflected in the determination of output and export quotas. If on the other hand regulation schemes were organized and operated in co-operation by exporting and importing countries, control policies would certainly reflect more faithfully considerations of general welfare. But equal division of control power be-

tween the two groups of countries might lead to deadlocks and thus give rise to unfortunate delays when critical decisions had to be taken.

The term "consumer representation", moreover, is vague. The rubber and tin agreements provided for the representation of the industrial consumers of the largest net importing countries. But the interests of industrial consumers do not necessarily coincide with those of the final consumer. The industrial consumer is primarily interested in stable prices. His interest in low prices is of quite minor importance. It is almost negligible when the price elasticity of demand for his products is small. This is true of many industrial raw materials. In fact, the industrial consumer often stands to gain from a gradual rise in prices because the value of his raw-material stocks would then tend to appreciate. The ultimate consumer, on the other hand, is primarily benefited by low prices. His interest in stable prices is secondary.

Since the interest of the ultimate consumer is widely diffused while that of the industrial consumer is relatively concentrated, it is much easier to find a representative of the latter than of the former. It is for this reason that representation by government officials is often suggested. In most countries this is probably the only practicable solution. In theory governments should pursue the general interest. In practice, however, they are frequently subject to pressure from organized business groups and such pressure is much more influential than the pressure from ill-organized consumers' groups.

In spite of these difficulties the two proposals of consumer representation on individual agreements and of an over-all supervisory body taken together might go far to assure that international commodity controls were not administered in the interest of the producing countries only. But it must be fully realized that rare ingenuity and courage are required for governments to discover institutional means by which the interest of the final consumer can effectively be safeguarded. For the over-all body to be able to conduct its judicial or rather quasi-judicial functions satisfactorily it is clearly essential that there should be some agreed body of doctrine for its guidance. Such a body of doctrine might be drawn up in advance by international agreement or the task of its compilation might be entrusted to this over-all supervisory body as one of its first functions. Were the latter course adopted, then initial emphasis would be laid on its supervisory activities, and amongst those activities might be included that of approving the text of all individual control agreements.

When considering the principles which should be applied in the creation and conduct of intergovernmental agreements it is necessary to remember that such agreements may harm consumers even when prices

remain at a level only moderately profitable to the average producer. Whenever excess productive capacity is maintained by restriction, the cost of preserving superfluous extra-marginal capacity raises the average cost level of the entire industry. This cost is ultimately borne by the consumer. Furthermore, whenever control agreements stereotype a historical distribution of productive facilities and impede the forces of economic progress within the industry, the consumer interest suffers to the extent that the secular decrease in production costs is retarded or suspended. The aggregate damage may be very great if such schemes are applied to a number of important raw materials.

It may be argued that indirectly consumers and importing countries (all of which are also producers and exporting countries) may suffer severe and greater damage in the end if cut-throat competition and a régime of export subsidies take the place of international commodity agreements. This may be true, but the contention should not be accepted without enquiry. The important question is, however, whether these are the only practicable alternatives. If nations are willing to co-operate, a way may be found to eliminate export bounties and to formulate regulation agreements which minimize the disadvantages so conspicuously inherent in most control agreements during the inter-war period.

In any case, as a recent League report has emphasized, "the success of all schemes for international control of production should be judged on the extent to which they ultimately replace the high-cost by the low-cost producer" [1]. Indeed, it seems worthwhile enquiring whether the establishment of an international regulation scheme should not be made conditional upon the formulation of a programme for the amputation of excess productive capacity as suggested in Chapter II of this Part [2]. This would make control schemes temporary expedients of a constructive character. Eventually, the prosperity of depressed industries would again come to rest on progressive forces rather than on the perpetuation of restrictive practices.

[1] *Economic Stability in the Post-War World,* p 315.
[2] See *supra,* pp. 78-79.

## CHAPTER V

## CONSUMERS' PROBLEMS: LACK OF FOREIGN PURCHASING POWER

Intermittently throughout the 1920's and 1930's many countries complained of lack of equal access to foreign raw materials. Viewing the period as a whole, discriminatory practices on the part of exporting countries were exceedingly few and insignificant. The various restrictive measures discussed in Chapter IV often raised the price of important raw materials to the consumer but, with negligible exceptions, the increase in price was identical for all importing countries. The nationality of the buyer did not affect the price quoted by the seller. Legally, there was equality of access to the primary products of the world.

But even when there was no inadequacy of physical supply and when there were no restrictions on exports, many importing countries evidently met with difficulties in obtaining all the raw materials they wanted. Their real trouble was lack of sufficient foreign purchasing power Restrictive practices which raised prices only aggravated this fundamental problem.

Legal equality of access obviously provides no remedy for the solution of this dilemma. Without the wherewithal the right to purchase is nominal. The quantity of foreign primary products which an importing country can buy is limited by available foreign exchange. Countries can acquire foreign exchange by payments from foreign debtors, by borrowing and by their sales abroad of goods and services. Most of the importing countries that complained of raw materials difficulties were debtor-countries on balance and the declining rate of international investment rendered continued recourse to loans impossible. Exports of goods and services remained their chief source of foreign purchasing power.

It is quite clear that the problem of these countries differs from the consumers' problems examined in the preceding chapter. What is at issue here is the foreign demand for the goods and services which the country wishing to purchase raw materials can furnish in exchange. It may be said that this is not a raw materials problem. This inference is

largely correct and, as will be argued below, the maintenance of a maximum flow of international trade and capital, and the adjustment of the export prices of the countries concerned to world market prices, are the principal remedies to be recommended.

But these countries often maintained that the uneven geographical distribution of physical resources over the globe was the direct source of their troubles, that compared with countries endowed with a wealth of such resources—the "Haves"—they were "Have-nots", and that international action was required to reduce or eliminate this inequality. What truth is there in this assertion?

The distribution of raw materials production among the nations of the world is indeed unequal. No country is entirely independent of foreign supplies, but some countries undoubtedly are "rich in domestic raw materials" while others are "poor". In part, these differences arise from differences in capital resources and technical and managerial skills. In part, they result from differences in available natural resources. This is obvious in the case of mineral deposits. Though to a less rigid and inevitable extent, climatic, topographical and soil conditions provide similar limitations.

An international raw materials problem is potentially inherent in this basic inequality. It is true that unequal endowment with physical resources does not necessarily produce comparative differences in national incomes. This fact is evident though not always correctly formulated. It is often pointed out that among nations which are net-importers of raw materials some are relatively wealthy and some relatively poor, just as there are wealthy and poor nations among the countries that are net-exporters of primary products. Yet, while indisputable, this observation is of limited value. The very contradistinction between countries that are net-importers and those that are net-exporters of raw materials is artificial. It is quite often the "net-exporter" that experiences great difficulties in acquiring foreign raw materials. Above all, differences in national wealth result primarily from differences in general productive efficiency which, in turn, largely depend on differences in capital resources and skills. The above observation does not prove that differences in national wealth are unaffected by unequal natural resources. What it proves is that other conditions are more important in bringing about inequality of national wealth.

Countries unable to satisfy their needs of certain raw materials by domestic production can acquire them from abroad through the indirect process of producing an exportable surplus of other products. Such exchange is facilitated in a world economy which encourages in-

ternational division of labour based on the principle of comparative advantage. Under such conditions, it is to the advantage of a country to export raw material A which it can produce cheaply, just as it is advantageous for another country to export raw material B or manufactures or certain services. Were complete freedom of trade established, countries "poor in raw materials" should find no special difficulty in securing foreign supplies [1].

The seventy-five years preceding the first World War witnessed a relatively close approximation to free international trade. During that period little was heard of the claim that importing countries lacked foreign purchasing power for the acquisition of foreign raw commodities. This problem appeared only with the economic dislocations caused by World War I, its aftermath of chaotic political, financial and monetary disturbances and the resulting attempts at national remedies. The relatively unfettered world trading system of prewar years then suffered a setback. It seemed to begin to recover in the late 1920's, but that illusion was short-lived. The continued trend of economic nationalism in conjunction with the economic distress and tensions of the Great Depression produced a vicious circle of increased trading difficulties and economic restrictions.

It was under these circumstances that many importing countries found it extremely difficult to obtain foreign exchange for the purchase of foreign raw materials. The acquisition of foreign purchasing power through the sale of export goods was then seriously hampered as other nations imposed increasing limitations upon imports and as international trade contracted under the combined impact of monetary instability, exchange restrictions and protective tariff and quota barriers. It is when international division of labour contracts and trade shrinks under business depression that the raw materials problem as a financial problem arises.

Not all importing countries suffered equally. During the depression of the early 1930's, countries receiving income on account of foreign investments or from such invisible exports as shipping services were under a lesser strain than others because these types of income fluctuated less violently than receipts from commodity exports. Exports of durable capital goods fell off much more than exports of consumers'

[1] They could not, of course, expect to obtain all raw materials they might desire to consume; but this is true for all countries. There also would persist differences in national per-capita consumption of raw materials resulting from differences in national income. Such differences would tend to disappear only in the prolonged absence of impediments to the international movement of capital and population. Finally, there would remain one possible disadvantage resulting from the paucity of certain natural resources: the cost of overland transportation for bulky and heavy materials with a low per-unit value.

articles. World prices of manufactures declined less than the prices of primary products, those of foodstuffs less than those of industrial materials. Indeed, temporary advantages accrued to some raw-material-importing countries[1] through such changes in the terms of trade, although this improvement applied, of course, to a diminished volume of trade. Conversely, countries exporting raw materials but dependent on imports of other raw commodities received no such benefits and were hit particularly hard to the extent that they were in the process of industrializing.

No precise principles can be advanced beyond these general and verifiable observations. In fact, the situation of each individual country would have to be studied in order to determine how its raw materials position was affected by changes in the terms of trade between its chief exports and imports and by the diminution in the volume of trade and capital transactions. Yet the general inference is clear: any impediment to the exports of a country "poor in raw materials" contracts its power to acquire foreign raw materials and thus to offset the natural paucity of its raw materials base.

As remarked above, the maintenance of high prices through cartel and other restrictive practices may vastly aggravate the financial difficulties of these countries. The quantity of raw materials which they can buy is limited not only by their available supplies of foreign exchange but also by the prices of the raw materials needed. If the price of important raw commodities is artificially kept at an excessive level, the burden is incomparably greater on the country with a stringent foreign exchange position than on countries enjoying an affluence of foreign purchasing power.

The plight of many countries, largely dependent on foreign supplies of raw materials, posed the question of whether international action was required and was possible to alleviate their distress. As long as no such solution was forthcoming, national restrictive measures were pursued to reduce the outlay of foreign exchange for all but the most essential purchases and to stimulate domestic production (even when inevitably high-cost) of many goods that were hitherto acquired from abroad. The cumulative effect of these measures entailed a further disintegration of international trade. In addition, it led to a lowering of consumption. For many countries, however, a striking diminution of their dependence on foreign supplies was not immediately practicable. To escape from this dilemma, the following proposals were advanced in the course of the inter-war period.

[1] See *supra*, p. 49.

*1. Preferential Trade Terms for "Have-nots".*

Shortly after the end of the first World War, when many European countries were unable to finance foreign raw materials purchases, the demand was made that the primary products of the world should be distributed on the basis of equity and need rather than ability to pay [1]. Some of these proposals were chiefly concerned with transitional problems, but others conceived of such a scheme as a long-term solution. These plans usually comprised the establishment of an international commission (sometimes under the League of Nations) which would allocate available supplies in accordance with the requirements of the different importing countries.

This proposition was criticized in Professor Gini's report, by the Provisional Economic and Financial Committee of the League of Nations and by the Economic Commission of the Genoa Conference [2]. The gist of these criticisms was as follows: (1) Producing and consuming countries would not delegate to any international allocation agency the powers of interfering with their several national economies required by such a scheme; (2) Any criterion by which this agency would ration supplies and fix prices would necessarily have to be arbitrary; (3) The dilatory and generally incompetent character of bureaucratic control would be to the detriment of the public good in all countries.

The first of these counter-arguments is not concerned with the theoretical merits of the proposal but only with its immediate practicability. The others would appear to have much validity if the proposal is applied to the long-term problem. But if during a post-war transition period there is an all round shortage of raw materials and at the same time certain countries particularly affected by the war lack purchasing power, recovery is likely to be better promoted by a planned allocation of raw materials than by a disorderly scramble for them. In the long run it is, indeed, extremely difficult if not impossible to establish any criterion for allocation. During the transition period even an arbitrary allocation, if based on a genuine attempt to treat all countries justly, may be preferable to the sort of scramble that actually occurred in the early 'twenties and contributed so much to the financial breakdown of the weaker countries.

But even as regards a post-war transition period, the proposal would seem to be incomplete and to imply some supplementary scheme by which countries suffering from an insufficiency of foreign exchange could be financed. There was indeed an urgent need for reconstruction

[1] See *supra*, pp. 24-25, 28-29, 31-33 and 36.
[2] See *supra*, pp. 32-33, 35 and 36.

credits after the last war which was never met. The result of this failure to face up to the needs of the situation is discussed in an earlier volume in this series—"Europe's Overseas Needs, 1919–1920, and How They Were Met".

In the long run the inability of any country to obtain raw materials can likewise not be overcome by allocation alone. Again some system of financing is implied. The proposal amounts therefore, in the long run, to a demand by countries poor in foreign exchange to permanent subsidies for the purchase of raw materials and as such is open to two serious objections, quite apart from the question of its feasibility. The first objection is that it is extremely easy for a country, if it deals with its financial and economic problems badly enough, to render itself short of foreign exchange; the second is that if the subsidization of the poorer countries by the wealthier were in principle recognized as far as raw materials are concerned, there is no reason why it should be confined to raw materials. The argument would apply equally to permanent subsidies for the acquisition of any or all classes of goods and services. Such permanent subsidies would have an effect profoundly different from contra-cyclical foreign lending designed to reduce oscillations in economic activity. When the shortage of foreign exchange from which any country suffers is due to the fact that it has applied successfully policies for maintaining a high and stable level of employment while some other country or countries have failed to do so, there may be a strong case for expanding the credit structure in these other countries and for foreign lending by them. But such credit or lending operations do not require to be related to any system of allocation, and to be effective they should be contra-cyclical. In any case, general international rationing of raw materials supplies is politically impracticable except in times of emergency.

### 2. *Customs Unions, Economic Blocs, and Redistribution of Colonies.*

Differences in the wealth of raw materials and supplies in the different countries of the world are the combined result of the unevenness with which physical resources are distributed and the existing pattern of international boundaries. The international raw materials problem under discussion would obviously disappear with the creation of a world state just as a further multiplication of sovereign states would tend to aggravate them. At various times during the interwar period, suggestions were made for the formation of customs unions, economic blocs and the redistribution of colonies. In part at least these suggestions were inspired by the desire to lessen the dependence of certain coun-

tries or groups of countries on outside sources of raw materials supplies.

Since aspirations towards a ruthless imperialism were implicit in the German conception of a *Grossraumwirtschaft* and the Japanese project of a Co-prosperity Sphere, these plans constituted no basis for international agreement. The fostering of customs unions was vaguely recommended by Professor Gini in his report on international raw materials problems, and various plans for a closer integration of Europe were in part inspired by the problem of raw materials.

The dependence of a customs union on supplies from sources outside the union should obviously be smaller than the combined dependence on foreign supplies of the countries forming it, and, as trade within the union would be unimpeded, its constitution should lessen the difficulties of these countries. But the formation of such unions presupposes a degree of political unity which did not exist in the prewar world. Nor would it ever be undertaken for the purpose of remedying raw materials problems alone, for the means would not be in proportion to the end.

Certain states during the interwar period pressed for a redistribution of the world's colonial dependencies on the ground *inter alia* that it would help to solve their raw materials problems—problems greatly aggravated by large armaments programmes and overvalued exchange rates [1]. These demands were never formally considered by international conferences or investigatory committees. The League Committee for the Study of the Problem of Raw Materials made only the indirect comment that the production of commercially important raw materials in all colonial territories amounted to only 3 per cent of world production [2]. This statement does not, of course, dispose of the claim that control over certain colonies could not somewhat relieve the raw materials problems of the imperial power. As long as a colony forms part of the currency system of the metropolis, the latter need not allot foreign exchange for raw materials purchased in the colony and may gain exchange from colonial exports to other countries [3].

It was pointed out by the colonial powers themselves, however, that the assignment of colonies to all countries experiencing difficulties in acquiring foreign primary products is patently absurd and could not, indeed, be expected to alleviate the international raw materials problem. Moreover, a redistribution of colonies in favour of a few privileged

[1] See *supra*, pp. 56-57.
[2] See *supra*, p. 63.
[3] However, colonies possessing valuable natural resources have usually attracted capital for their exploitation. As far as this capital is owned by foreigners, a large portion of the foreign purchasing power accruing from sale will normally flow to the investing country.

claimants that happened to be powerful could not be defended as a solution of the international problem under discussion. Above all, this demand completely disregarded the fact that colonial territories are not only endowed with certain physical and economic resources but are also inhabited by indigenous populations which have rights and legitimate aspirations of their own.

*3. The Reconstruction of a Stable and Expansive World Economy.*

We have seen above that the payments problem of many importing countries must be attributed primarily to the rapid disintegration and instability of the world economy, to the increasing impediments to international trade, the decline in international capital investments and the paralyzing effect of violent business depressions. The reconstruction of a relatively unfettered and stable world economy is therefore obviously the most apposite and immediate remedy.

This was realized by every international committee and conference dealing with the international raw materials problem [1]. But for reasons mentioned repeatedly and analyzed in detail in another League of Nations Study [2], any attempts at broad international action in this direction proved abortive. Recommendations and resolutions were disregarded and agreements on constructive measures often failed to be ratified.

Under the adverse conditions prevailing in the 1920's and, particularly, in the 1930's, the application of this comprehensive remedy was therefore impracticable. This solution nevertheless remains the most feasible and promising one. Whether it can be applied will depend above all on the degree of political security achieved and on the leadership of the economically more advanced and more powerful nations. For its success the following conditions would appear to be essential:

(1) The international flow of goods and services must be encouraged by the gradual lowering of all obstructive barriers such as tariffs, import quotas, exchange restrictions, and by the removal of restrictive measures practised by exporting countries.

(2) The world trading system must be multilateral. This implies the abandonment of bilateral trade plus clearing agreements.

(3) A high degree of currency stabilization and convertibility must be achieved so that countries can purchase and sell without regard to the currency of the exporting or importing country. This

[1] See *supra*, pp. 28-30, 32-33, 36, 46, 54, 58-59 and 65.
[2] *Commercial Policy in the Interwar Period: International Proposals and National Policies*, Part II.

condition cannot be brought about unless countries are assured of emergency reserves of foreign exchange to tide them over periods of short-term disequilibria.

(4) International capital investment must be encouraged to assist in monetary stabilization and in the economic development of the relatively less advanced countries. To put international capital movements on a sound basis, the creditor countries must be mindful of their responsibility to facilitate the payment of interest and amortization by allowing ample volumes of imports.

(5) It must be realized that international trade is part and parcel of the total trade of the countries participating in it. The volume of world trade is vitally affected by the trend of business conditions and national income in the commercially leading countries. It is important, therefore, that the economy of these countries should be stable and expansive, and that international action should be taken to co-ordinate national policies for securing a stable level of employment.

The pursuit and substantial realization of such a set of comprehensive policies could be expected to go a long way towards solving the international raw materials problems confronting consumers and importing countries. Fortunately, these very same policies are also appropriate for assisting in the solution of the problems besetting many producers of raw materials and exporting countries.

# CHAPTER VI

## CONCLUSIONS

The foremost lesson to be learned from past experience is that the severity of international raw materials problems is primarily determined by the character of the world trading system. There would be few difficult problems of this kind—and none insoluble—in an expansive world economy sustaining a large and stable flow of commodities, services and investment funds. Within such an environment importing countries would have no special difficulty in financing purchases of foreign raw materials, price fluctuations should generally remain within reasonable bounds, and prolonged conditions of excess productive capacity could be expected to occur but infrequently.

To hope for the easy accomplishment of such a state of affairs would be utopian. But to despair of its possible accomplishment would be defeatist. It must serve as a general target for all endeavours directed at escape from the vicious circle of restrictionism which in the interwar period made for a proliferation of disconcerted stop-gap devices to mitigate special difficulties without attacking their fundamental causes—make-shift expedients that in the end often succeeded in creating further maladjustments and troubles. It must serve as a target for all attempts at solving problems by adaptive and concerted rather than by restrictive and isolated measures.

Furtherance of concerted rather than isolated action requires international programmes and international programmes must be based on international enquiry. What international enquiry is capable of achieving has been shown, albeit under very unfavourable circumstances, by the committees and commissions of the League of Nations as well as of international conferences. But for such enquiry to be fruitful, there must be willingness among the nations to co-operate and such willingness must rest on a common body of basic interests and of principles by which these interests can be served to mutual advantage.

Certain prerequisites need to be satisfied before such community of interests in world economic affairs can sustain effective co-operation. The first is political security. Fear of war obstructs international co-operation. It encourages attempts at reducing national dependence on

the world economy. That means diminished international trade and lending and, inevitably, the breakdown of any universal currency system. It creates serious problems for the producers and consumers of raw commodities, for exporting as well as importing countries. It also means that raw materials problems become "war" materials problems which breed international tension and by nature cannot be solved to the mutual benefit of nations.

Security against the deflationary effects of depression is the second prerequisite. If such security does not obtain, nations will again be forced to isolate their economies and monetary systems and will try to alleviate the distress of their nationals by single-handed and economically costly measures. As the world is organized now, the moderation of the business cycle remains chiefly within the province of the great economic powers. But those powers will not be able to apply measures successfully if they act independently. Their policies must be co-ordinated; they must act in unison.

Another prerequisite is that governments should be able to restrain the selfish beggar-my-neighbour machinations of organized interest-groups. Wherever and whenever governments gave in to their pressure the result was restriction. Restriction, moreover, was generally self-perpetuating; it bred further restrictions and, in the end, paralyzed the forces of economic progress.

The final prerequisite is that the transition from war to peace is conducted in an orderly fashion. The readjustment process will require several years, and the seeds of post-transitional commercial policy will be sown during this period. This is a time of grave responsibility but also of great opportunity. The complexion of world monetary affairs and the future degree of protectionism and restrictionism will be largely decided by the readiness of nations to co-operate during the immediate post-war years and by the principles which guide this co-operation. In the raw materials field, incipient international problems can be lessened during the transition period by rationing, by quickly expanding the production of commodities in scant supply and by devising intelligent policies for the liquidation of surplus stocks and surplus productive capacity where the underlying condition is one of overabundance.

Provided a reasonable approximation to these prerequisites is attained, it should not prove too difficult to free the flow of international trade substantially from restrictive obstacles and to solve residual raw materials problems. In these circumstances consumption of most raw materials would be likely to expand. Fluctuations of raw commodity prices could be expected to be moderate compared with the extreme oscillations of the inter-war period. The establishment of international

buffer stocks would seem to constitute the most flexible method for preventing such oscillations in the case of a number of the commodities whose prices are subject to unpredictable climatic conditions and irregular crop cycles, and flexibility is essential for success. Should some industries continue to suffer from the consequences of excess productive capacity, gradual disinvestment along the lines discussed on pages 78-80, possibly under the temporary shelter of international control arrangements, would be greatly facilitated.

As far as the problems of consumers and importing countries are concerned, it should be feasible to arrive at an international convention for the abatement of excessive and preferential export taxes, which in fact have never been of any great importance, and of objectionable forms of export prohibitions and restrictions. Nor should it prove impracticable to attain agreement on curbing restrictive cartel practices. Similarly, the establishment of temporary international commodity agreements could be made subject to the incorporation of strong consumers' protection and of readjustment schemes designed to permit the early abandonment of restriction. Finally, under the conditions postulated, importing countries should have little trouble in financing the purchase of foreign raw materials.

If the actual conditions of world economic affairs should deviate markedly from those outlined above, international raw materials problems will constantly present themselves in the future as they did before the war. Acute problems will again press for urgent solutions and, regarding these, the observations in the foregoing chapters of Part II remain apposite. Just as during the inter-war period, however, it will prove very difficult to devise remedies which are at the same time constructive and politically acceptable.

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